Hydro One Ltd. vs. Emera Inc.: Which Dividend Stock Is a Better Buy?

Description

Investing in dividend-paying utility stocks is a great way to build your wealth. These companies offer growing dividends, backed by stable revenue cycles, and they're good for the investor class that likes the buy-and-hold strategy.

This stability in their income generation comes from their business model; utilities get paid at regulated rates for the services they provide to consumers. These rates remove uncertainty from their revenue models which, in turn, is good for income-seeking investors.

Let's have a look at **Hydro One Ltd.** (TSX:H) and **Emera Inc.** (TSX:EMA) to find out which dividend stock offers better value today.

Hydro One

Hydro One is an electricity, transmission, and distribution company that provides services to Canada's most populated province: Ontario.

Ontario gets most immigrants from Canada's very robust immigration program in the developed world. This constant inflow of new residents means the demand for Hydro One services will continue to grow.

Hydro One is expanding. Last year the company announced a $6.7 billion acquisition of northwestern U.S. energy company **Avista Corp.**, which is a regulated utility that operates in the states of Alaska, Idaho, Montana, Oregon, and Washington.

The deal passed an antitrust clearance in the U.S. this month, and there is a good chance that it will go through other regulatory hurdles. Both companies expect that the deal will be closed during the second half of this year.

Trading at $20.93 and with an annual dividend yield of 4.2%, Hydro One is an attractive investment for dividend investors. After the recent sell-off in utility stocks, Hydro One now trades at a forward price-to-earnings multiple of 15 — a good bargain to consider for your income portfolio.

Emera

Just like Hydro One, Emera is also a small regional utility; it's based in Halifax, Nova Scotia. But Emera is in the advanced stage of its expansion plan after it acquired TECO Energy, Inc. in 2016, creating a combined entity which is among the top 20 North American regulated utilities.

Another reason to like Emera stock is that the utility gets more than 85% of its consolidated earnings from its regulated business, which is a great stabilizing factor for its bottom line and cash flows. Regulated earnings growth is expected to support the company's 8%-per-year dividend-growth target through 2020.

After a 14% dip during the past 12 months, Emera now offers 5.4% annual dividend yield, which is better than Hydro One's 4.2%. This annual dividend yield comes with a multiple of 14.19 times estimated 2018 earnings, which is close to the company's historical low of about 14 last reached during the financial crisis.

Trading at $40.72, I think Emera is another utility stock to consider for your long-term income portfolio.

Which one is better?

I find Emera's 5.4% dividend yield is hard to ignore. The company is successfully integrating TECO Energy assets, and it's now in a good position to reap the benefits of this acquisition. Hydro One, however, is under a tough political scrutiny due to customer complaints and the salary of its CEO. Investors are better off to stay on the sidelines and see how things stabilize after the provincial elections this year.

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