Should You Buy Fortis Inc. or Emera Inc. Today?

Description

Both **Fortis Inc.** (TSX:FTS)(NYSE:FTS) and **Emera Inc.** (TSX:EMA) are regulated utilities that should continue generating growing profitability to support their increasing dividends. The pullbacks of their stocks of ~13% and ~17%, respectively, from their 52-week highs may be a buying opportunity for income-focused investors.

Given the meaningful pullbacks the stocks have experienced, they now offer bigger yields than before and can deliver some nice price appreciation from the current levels.

Let's compare the two stocks to see which may be a better buy today. Since a big reason for many investors to buy Fortis or Emera is for their dividends, there will be a focus on their dividends in the comparison.

Dividend-growth track record

Fortis has increased its dividend for 44 consecutive years with a three-year dividend-growth rate of 8.3%. Management aims to grow its dividend by 6% per year on average through 2022.

Emera has increased its dividend for 11 consecutive years with a three-year dividend-growth rate of

13.1%. Management aims to grow its dividend by 8% per year on average through 2022.

Although Fortis has a longer dividend-growth streak, Emera is expected to grow its dividend faster than Fortis through 2022.

Dividend yield

At their recent quotations, Fortis offers a ~4.1% dividend yield, and Emera offers a ~5.5% dividend yield. So, Emera wins on the yield metric by offering a juicier dividend.

Payout ratio

Fortis's and Emera's payout ratios are estimated to be about 68% and 81%, respectively, this year. So, Fortis offers a safer dividend. Notably, Emera's dividend should still be safe given that its payout ratio has declined from last year's 87%.

Profitability

Fortis's and Emera's recent returns on equity were ~7.3% and ~9.4%, respectively, and they are estimated to grow their earnings per share by ~5% and ~7% per year for the next three to five years.

Upside potential

The analysts from **Thomson Reuters Corp.** have a 12-month mean target of $47.90 per share for Fortis. At $41.60 per share, Fortis offers near-term upside potential of ~15%. The analysts have a mean target of $48.10 per share for Emera. At $40.66 per share, Emera offers near-term upside potential of ~18%.

Investor takeaway

Both stocks have come off from their highs and are trading at better valuations than a year ago. So, investors looking for income probably can't go wrong with either stock.

That said, some investors would feel safer owning Fortis over Emera because Fortis has a lower payout ratio, which indicates it offers a safer dividend. However, Emera will likely deliver greater returns due to its bigger dividend yield and expected higher growth rate.

Investors who are comfortable with both companies should consider Emera over Fortis.

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1. Dividend Stocks
2. Energy Stocks
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1. Editor's Choice

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2. TSX:EMA (Emera Incorporated)
3. TSX:FTS (Fortis Inc.)

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kayng