A Top Energy Stock From Canada That Looks Undervalued

Description

Is it a good time to buy top energy stocks? The answer to this question depends on which segment of the energy market you like.

Generally, upstream and downstream players in the energy value chain are most exposed to the volatile nature of this market. But then comes energy infrastructure providers, such as pipelines, storage facilities, and power and gas utilities.

For investors whose objective is to earn stable dividend income, investing in energy infrastructure stocks is probably the best bet, given their regulated rate structure and stable cash flows.

One encouraging factor making power and gas utility stocks attractive is that the major sell-off is out of the way, and almost all the bad news has already been priced in their stock values.

Utility and pipeline operators got hammered this year, hurt by rising bond yields and changes in the U.S. tax laws. iShares's **S&P/TSX Capped Utilities Index ETF**, for example, is down 12% this year against the 6.6% gain in the benchmark S&P/TSX Composite Index during the same period.

I think this underperformance has run its course, because the underlying strength of some utility stocks remains intact, and there are some stocks trading at quite attractive levels. Here is an example of a top energy infrastructure stock from Canada that you might find attractive to add to your portfolio.

Emera Inc.

The Halifax, Nova Scotia-based **Emera Inc.** (TSX:EMA), one of the top 20 North American regulated utilities, is one of these players.

This 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.

Emera posted first-quarter results exceeding analysts' expectations, helped by a solid performance from its utilities in Florida and New Mexico and the recent launch of the Maritime Link transmission line connecting the island of Newfoundland to Nova Scotia.

Despite this solid showing, its stock is still down 18% this year. Some analysts fear the company may cut its future dividend growth from 8% to about 5% to help fund its robust growth program.

But I don’t think this is a possibility, especially when the company’s payout ratio, at 70-75%, is well within a manageable level, and when the company has started to fully benefit from its acquisition of TECO Energy, Inc. in 2016.

Trading at $41.2 and with an annual dividend yield of 5.62%, Emera offers an attractive risk/reward preposition for income investors who want to lock in this juicy yield.

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Date
2025/07/04
Date Created
2018/06/08
Author
hanwar