



Should You Buy Enercare Inc. (TSX:ECI) for a 5.5% Dividend Yield?

Description

Enercare Inc. (TSX:ECI) is an investment-grade yield company with a BBB credit rating. [Income investors should be interested](#) in it because it offers a juicy yield of nearly 5.5%.

The stock also has price appreciation potential, as it has had a meaningful dip in the first few months of the year and has recently recovered some lost ground.

First, let's take a look at the business to see if it's a business you would like to invest in.

The business

Enercare offers water heaters, water treatment, furnaces, air conditioners and other HVAC rental products, plumbing services, protection plans, duct cleaning, plumbing, electrical, and other related repair and maintenance services to its residential and commercial customers in North America. It serves about 1.6 million customers each year.

Enercare is also the biggest non-utility sub-meter provider, with electricity, water, thermal and gas metering contracts for condominium and apartment suites in Canada.

Enercare was formerly an income fund, The Consumers' Water Heater Income Fund, which was listed publicly in 2002. Upon converting to a corporation in 2011, the company renamed itself Enercare.



Who loves monthly dividends?

Since becoming a corporation, Enercare has increased its dividend every year at an average rate of more than 5%. As well, it has delivered an amazing annualized rate of return of about 18%.

At the recent quotation of roughly \$18.20 per share, Enercare is good for a dividend with a yield of almost 5.5%. The company increased its monthly dividend per share by 4% in April.

How much upside does Enercare have?

In the management discussion and analysis document for the first quarter, Enercare noted that it has been growing its rental HVAC portfolio in recent years, which generate three to five times higher rental revenue than that of a traditional water heater. The increasing rental HVAC units have helped increase the average rentals portfolio revenues over time.

Enercare also aims to grow its protection plans, which include maintenance and full-service plans that cover items such as furnaces, air conditioners, plumbing, fireplaces, electrical components, and appliances.

Enercare's price-to-operating-cash-flow multiple has tripled since 2011. However, the stock simply went from being undervalued to being reasonably valued. If the company can continue growing steadily as it has in the past, the stock should have no problem heading higher.

In fact, **Thomson Reuters Corp.**'s consensus 12-month target on the stock is \$24.10 per share, representing about 32% near-term upside potential.

Investor takeaway

Enercare is a reasonable buy at current levels for a nearly 5.5% yield. If it continues to [grow at a stable pace](#), investors should be able to get long-term returns of about 10%. If you're looking for a bigger margin of safety, wait for an entry point below \$17.50 per share.

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