# Why This Top Utility Stock Is a Good Bargain Today

## Description

Utility and energy infrastructure companies have had a rough year. Their stocks came under severe selling pressure as the central banks in both Canada and the U.S. raised interest rates, thus diminishing the investment appeal of these companies.

But the latest macro developments suggest that it will be tough for the Canadian central bank to be aggressive in hiking the borrowing costs when the threat of trade war with its largest trading partner is becoming real and a possible deal on North American Free Trade Agreement (NAFTA) is unlikely anytime soon.

The reflection of this uncertain rate outlook is more evident in the currency markets, where Canadian dollar has weakened to a nearly one-year low against its U.S. counterpart.

If Bank of Canada is going to move on the sidelines until we have some clarity on the trade front, then it's a good idea to start fishing for some beaten-down energy stocks, which hold good potential to outperform due to their business strength.



If you're in the market to earn stable dividend income, investing in energy infrastructure stocks is probably the best bet, given that the share prices are down and yields are attractive. The Halifax, Nova Scotia-based **Emera Inc.** (TSX:EMA), one of the top 20 North American regulated utilities, is one such top utility stock that you can consider in this environment. Here's why.

### Regulated rates

Emera's 85% consolidated earnings come from its regulated business. This is one of the biggest advantages of investing in regulated utilities, as certainty in their cash flows makes its easier for the management to distribute profit in the shape of growing dividends.  In case of Emera, the growth in earnings is expected to support the company's 8%-per-year dividend-growth target through 2020.

The latest earnings report shows that Emera is in a good position to continue with its growth momentum. Its first-quarter results exceeded 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.

### The bottom line

Utilities like Emera are classic rate-sensitive stocks, which is the main reason that its stock is down 15% during the past 12 months. But this weakness has taken the company's dividend yield to 5.49%, which is a much better return when you compare it with GICs. With a five-year dividend growth of 9.4%, this stock is a great bargain for long-term investors.

Going forward, I don’t see any possibility that will force this stable utility stock to cut its dividend, especially when the company’s payout ratio, at 70-75%, is well within a manageable level.

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1. TSX:EMA (Emera Incorporated)

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