Treat This Utility as an Income Stock and You'll Be Happy

Description

Emera (TSX:EMA) reported its second-quarter results last Thursday, and the stock reacted by falling almost 5%. Aren't utilities supposed to be stable?

Emera remains a stable regulated utility. However, its payout ratio is near its 19-year high. Based on estimated earnings, Emera's payout ratio will be about 84% this year. The payout ratio is much higher than **Fortis'** estimated 2018 payout ratio of about 68%, but it's still sustainable.

Image not found or type unknown

Canadian bills

Why the dip

Many investors buy Emera for its dividend and dividend growth, but the company just lowered its dividend growth guidance (by about half!). That partly caused the recent dip.

Emera is prioritizing its capital in its investments rather than keeping its previous guidance of increasing its dividend per share by 8% per year through 2022. Emera just hiked its dividend per share by nearly 4% and reduced its dividend-growth guidance to 4-5% per year through 2021.

Short-term pain = healthier company

Although investors don't like the slower dividend growth, which is understandable, it's healthier for the company to lower its dividend growth sooner rather than later.

The Q2 earnings release indicated that Emera's earnings per share will be growing faster than its dividend growth, which implies management's intent to lower the payout ratio over time. This could lead to higher dividend growth later on, perhaps from 2022 onwards.

Emera's recent results

Here are some key metrics compared to the same period in 2017:

	Q2 2017	Q2 2018	Change
Net income	$101 million	$90 million	-10.9%
Earnings per share	$0.47	$0.38	-19.1%
Adjusted net income	$117 million	$111 million	-5.1%
Adjusted earnings per share	$0.55	$0.48	-14.6%

Management pointed out that timing, weather, and foreign exchange rates had a negative impact for the quarter. Yet, the results for the first half of the year is more or less what management expected them to be with adjusted earnings per share growth of about 6%.

Investor takeaway

Although investors are disappointed by slower dividend growth for the next few years, it's important to reiterate that Emera is choosing to allocate capital to invest into the business for future growth. This includes the US$850 million investment in the Big Bend facility, which will reduce emissions and improve efficiency and the $500 million investment in smart meters over a five-year period.

As well, I would like to highlight that Emera now offers a juicy forward dividend yield of 5.9%, which is a 10-year high! The utility's dividend is sustainable. With a dividend growth guidance of 4-5% for the next few years, buyers today can expect conservative annualized returns of about 10-11%. Notably, the bigger dividend will be payable in November.

The bottom line is, with the utility's big yield, simply treat Emera as an income stock with a little growth and you'll be happy.

At about $39.60 per share, Emera trades at a blended multiple of about 14.9, which is at the low-end of its valuation range. Income-focused accounts should consider the safe income stock here.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks

3. Investing

Date
2025/07/28
Date Created
2018/08/13
Author
kayng