Is Emera (TSX:EMA) Still a Top Dividend Stock?

Description

Emera (TSX:EMA) has long been a model of dividend growth and sustainability. The Halifax-based energy utility company recently decided to hike its dividend between 4% and 5% through 2021; however, compared to the 10% growth rate it sustained between 2013 and 2018.

EMA expects to spend $6.7 billion by 2021 to shift to cleaner and renewable energy sources. Distributing less dividends will help the company fund its capital program. Should EMA's recent decision to slow its dividend growth be a source of concern for investors?

The importance of clean energy

Switching to cleaner and renewable sources of energy is essential for EMA. The entire utility industry is currently going through the same transition. Renewable energy sources offer many benefits. While the upfront costs to build the proper facilities to support these energy sources are substantial, they provide important benefits for everyone involved, including utility companies, consumers, and the environment.

One of the particularities of utility companies is their reliance on infrastructures that are very expensive to install and maintain: pipelines, electric transmission grids, etc. Once they are up and running, though, clean and renewable sources of energy will decrease operating costs for utility companies. A decrease in operating costs for utility companies will likely lead to a decrease in the prices they charge their customers.

EMA will use $1.7 billion completing two projects with **Tampa Electric Co**., a Florida-based utility company it acquired in 2016. EMA plans to retire a coal-fired unit at Big Bend, convert another unit to natural gas, and develop 600 MW of solar capacity. These changes should help the company's financial performance in the long run. EMA generates most of its profits from its U.S. operations, and Tampa Electric Co. accounts for about 40% of the company's revenue.

Is EMA currently a buy?

There are many potential benefits to investing in EMA. First, the sector in which it operates is a notoriously defensive one. Since utilities such as water, electricity, and gas are practically indispensable to modern life, the demand for these utilities remains relatively constant regardless of economic conditions.

As a result, utility companies tend to underperform compared to the market when the economy is doing well, but they typically perform better than most in a bear market. The utility sector outperformed the TSX in 2018. Second, since the switch to cleaner energy will make utility companies more efficient, they will become even more attractive to investors.

EMA still offers a competitive dividend yield of 5.4%. Even though the company will not increase it as much as it has recently, Emera till has enough upside, especially by way of strong growth prospects. If you are worried about the current state of the market, the utility company might be a good defensive stock to purchase.

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Date
2025/09/30
Date Created
2019/01/05
Author
pbakiny