Why Is Emera Inc (TSX:EMA) Stock Up 30%?

Description

Utilities aren't known for volatility. That's why investors paid attention after **Emera Inc** (TSX:EMA) shares shot higher for weeks straight.

Since October, Emera stock is up more than 30%. Even after the run, its dividend yield still exceeds 4.5%.

Will shares continue higher, or should investors wait for a better entry point?

A dividend you can count on

Perhaps a large part of the enthusiasm for Emera shares stems from its impressive dividend history.

Even after the 30% price increase, the dividend is still nearly twice as high as the TSX average. Last quarter the company achieved record cash flow, so investors are less worried than ever about its sustainability.

The impressiveness of its dividend shouldn't come as a surprise, however. As I wrote in January, "Down years have been rare, and never in its nearly 30-year public history has the company cut its dividend. Even during the global credit crisis of 2008 and 2009, Emera actually grew stronger."

Since I wrote those words, Emera released its fourth-quarter earnings. Recent fundamentals continue to back up its long history of success. Earnings per share rose 17% versus the year before, while cash flow popped by 39%.

It looks like investors aren't only appreciating the stability of Emera's dividend, but they're also growing excited about growth.

Get ready for dividend increases

Recently, Emera's management team revealed its plans for growing the company. Judging by the projects under consideration, it’s highly likely they can execute those plans. Additionally, the projects appear fairly low-risk, with the potential for creating decade-long revenue streams with minimal volatility.

For example, in 2019, Emera anticipates spending $2.3 billion in capital expenditures. On the most recent quarterly conference call, management boosted its 2020 estimates from $2.2 billion to $2.4 billion, while also ramping 2021 spending from $1.9 billion to $3.0 billion.

All of a sudden, this sleepy income stock became a growth story overnight.

While the spending increases will be contingent on project opportunities, they represent a new path for earnings growth and dividend increases. Already, earnings were expected to grow by 6% annually through 2021. If new spending is realized at effective prices, that growth rate would push expectations even higher.

Judging by the 30% increase in Emera shares over recent months, it appears as if the market is betting that these projects will materialize.

Should you jump in?

There are few management teams as skilled as Emera’s. While the stock market has favoured high-growth companies in recent years, Emera has continued to bet on itself, proving that slow-and-steady does indeed win the race.

Now trading at 13 times EV to EBITDA, shares are hardly a bargain. Since the growth opportunities were announced, this multiple has increased by around 10%, showing the market has already priced-in some of the upside.

Still, over the last decade, there wasn’t a price point in which you would have lost money using a buy-and-hold strategy. While this isn’t the most opportune time to snap up shares, implementing a dollar-cost-averaging strategy has been a proven method of profiting with Emera shares.

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