



This Utility Stock Will Power You Through a Recession

Description

The way financial pundits are talking about it, you'd think that we are already slam-bang in the middle of it. That's right, we are talking about the dreaded 'R' word: Recession. It's been a few months since everyone is expecting the global economy to bottom out, and while that hasn't happened yet, it's a good idea to be prepared for any eventuality.

You need rock-solid stocks in your portfolio to cushion you from the impact of a recession. Utility player **Emera** ([TSX:EMA](#)) is one such stock. Emera has approximately \$31 billion in assets and 2018 revenues of more than \$6.5 billion. The company primarily invests in regulated electricity generation and electricity and gas transmission and distribution with a strategic focus on transformation from high carbon to low carbon energy sources. Emera has investments throughout North America and in four Caribbean countries.

Emera's Numbers

Emera's second quarter of 2019 net income was \$103 million compared with net income of \$90 million in the second quarter of 2018. The company's year-to-date operating cash flow, before changes in working capital, increased by \$8 million to \$775 million, compared with \$767 million in the 2018 period. This increase was thanks to its utilities operations in Florida and New Mexico.

Emera is trading around \$57 and its current forward price to earnings ratio is 20 while its forward dividend yield is 4.2%. Emera's estimated five-year earnings growth stands at 3.8% which means the stock is trading at a slight premium.

Emera has a stable dividend yield and since most (80%) of its businesses are regulated, cash-flow is not going to be a problem for the company. This means the company can continue with its traditional 5-6% increase in its dividend payout. During a recession, it is these regular payouts that will ensure money keeps coming into your account.

The Verdict

It could be argued that Emera is already a hot stock. The perception that it is a safe stock has caused a lot of demand for it and its stock price has rocketed. As [Fool contributor Daniel Da Costa reported](#), Emera is a stock he holds a 'sell' rating on because the stock has already run up 50% in less than a year.

Mind you, he says it's a solid long-term stock but he says it's over-bought right now. This shouldn't deter you from adding it to your portfolio. If the price drops, average it out. Analysts have a 12-month average price target of \$58 for Emera, which is marginally above its current trading price.

Another point to keep in mind is that a utility company like Emera is rate-sensitive. A rate cut will mean the stock price will go up and vice versa. If the whole world is worried about a slowdown, it stands to reason that federal banks in Canada and the United States will cut rates to boost growth. Emera will only benefit from this.

Emera might be slightly expensive but if you don't have defensive plays in your portfolio, this could be one of your best bets.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:EMA (Emera Incorporated)

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Date

2025/07/27

Date Created

2019/10/14

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