Better Value Buy: Fortis (TSX:FTS) vs. Emera (TSX:EMA)

Description

As the markets remain volatile, investors are now looking at stocks that are trading at a reasonable valuation. They want to invest in stocks that have low valuation multiples, low beta, and that pay a dividend.

Here we look at two Canada-based utility giants to evaluate which is a better value buy at the current price. Utility stocks are generally considered recession-proof and a safe bet in a downturn.

Fortis

Fortis (TSX:FTS)(NYSE:FTS) is an electric and gas utility holding company valued at $18 billion. The stock is currently trading at $41.6, which is 2.8% below its 52-week high. In the last 12 months, Fortis has returned 27.6%, easily outperforming the **S&P 500 Index**, which is up 9.3% since October 2018.

Fortis is expected to grow sales by 6.5% to $8.93 billion in 2019 and by 5.1% to $9.4 billion in 2020. The stock is valued at 2 times forward sales. Analysts also expect the company's earnings to rise 2.4% in 2019, 8.2% in 2020, and by an annual rate of 5.5% in the next five years.

Comparatively, Fortis stock is trading at a forward price-to-earnings (P/E) multiple of 19.6 which looks like the stock is overvalued even after accounting for its forward dividend yield of 3.5%. In the last 12 months, Fortis' return on assets stood at 2.9% while the return to equity was 9.6%.

In 2018, interest payments amounted to $1.02 billion for Fortis. At the end of the second quarter of 2019, Fortis had an operating cash flow balance of $2.5 billion while debt stood at $23.5 billion, indicating enough reserves for debt repayment.

The company has a dividend payout ratio of 48.6% which allows enough room to increase interest payments and increases in capital expenditure. It ended the second quarter with a cash balance of $191 million.

Emera Inc.

Emera (TSX:EMA) is an energy and services company that invests in electricity generation, transmission & distribution, gas transmission, and other utility services.

Emera is valued at $13.25 billion. The stock is currently trading at $55.8 which is 5% below its 52-week high. In the last 12 months, Emera has returned 41%.

Emera sales are expected to fall by 2.1% to $6.39 billion in 2019 and then grow 0.6% to $6.43 billion in 2020. The stock is valued at 2.1 times forward sales. Analysts also expect the company's earnings to fall by 2.4% in 2019 and rise by 2.1% in 2020. Earnings might rise by an annual rate of 3.8% in the next five years.

Comparatively, Emera stock is trading at a forward P/E multiple of 19.5. The stock is overvalued even after accounting for its forward dividend yield of 4.4%. In the last 12 months, Emera's return on assets stood at 3% while return to equity was 9.9%.

At the end of the second quarter of 2019, Emera had an operating cash flow balance of $1.63 billion while debt stood at $15.26 billion.

The company has a dividend payout ratio of 72% allowing it some room to increase dividends or pay back debt. It ended the second quarter with a cash balance of $333 million.

Fortis and Emera are trading at similar multiples. However, the higher estimated bottom-line growth for Fortis makes it more attractive for investors. Analysts expect Fortis stock to gain 23% in the next 12 months while Emera is trading at a discount of 4% to average target estimates.

CATEGORY

1. Dividend Stocks
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2. TSX:EMA (Emera Incorporated)
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