Should You Buy Emera for its 4.5% Dividend Yield?

Description

When stock markets and the world in general are in a state of flux, you head for safe harbours. Generally, these harbours are defensive stocks. Utility player **Emera** (TSX:EMA) is one of the safest stocks to buy right now. Around 95% of the company's earnings are derived from regulated investments. It services 2.5 million customers across Canada, the U.S., and the Caribbean.

Emera has a dividend yield of 4.5%

Emera has consistently beaten the TSX Utilities Index over the last two decades. Over 20 years, it has given its shareholders a return of 9.1% compared to 8.5% by the index. In the last three years, it has returned 7.8% compared to 6.2% for the index and roughly around 10% in the last five years.

Its regulated revenues generate predictable cash flows and have helped it pay out regular dividends. Emera has been paying out a dividend since 1992 and has increased its payout in 25 out of 28 years. Its forward yield stands at a very healthy 4.5%. The company has increased dividends at a CAGR of 6% since 2000 and plans to increase dividends between 4% to 5% until 2022. This will assure investors of a stable income for the next three years at least.

Emera has a long-term payout ratio of 70-75% of net income. This guidance would mean an average payout of 72%, which should not present a challenge to the company. Emera also runs a DRIP (dividend-reinvestment program), which is great for investors to accumulate shares at a discount.

Emera's earnings have grown from $294 million in 2017 to $708 million in 2019, even as revenue fell from $6.23 billion to $6.11 billion in the same period. Its earnings per share has grown by 21% in the last three years. All of these figures shine light on a company that is deploying capital efficiently.

The Florida push

The company has diversified over the years, and the United States now accounts for 65% of its revenue. Around 55% of its revenue comes from Florida. For the second quarter of 2020, Florida

Electric's net income increased by $21 million to $146 million in Q2 2020 compared to $125 million in Q2 2019. For the six months ended, the figures are $225 million in 2020 compared to $186 million in 2019.

Emera has a $7.5 billion capital-investment plan to drive base growth rate through 2022, out of which 70% will be invested in Florida to achieve its 8.2% rate base growth. The company is investing $850 million to install 600 MW of solar by 2021 (roughly 550 MW is already in service) and will invest $850 million more to install an additional 600 MW by 2023.

September hasn't been a good month for stocks with a lot of companies giving up gains. Emera is not one of those companies. It entered September at $52.88 and is now at $54.05. Analysts have given it a target of $61.54 — an upside of 13%. When you add the dividend payout to this, you understand why Emera is a favourite in a volatile market.

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