The Best Utility Dividend Stock for a Lifetime of Passive Income

Description

In an environment that is volatile and uncertain, dividend stocks may offer predictable returns. While dividends are not a guarantee, there are a few companies that have paid and increased dividends consistently over time.

It's important to identify companies with strong fundamentals and the ability to generate steady cash flows across economic cycles making dividend payments sustainable. Generally, organizations that are part of the utilities sector are considered recession-proof and may be a top bet for dividend-seeking investors.

With $34 billion worth of assets, **Emera** (TSX:EMA) is one of the largest Canadian independent energy and services companies. The Halifax-based entity is a leading utility company with more than 2.5 million customers across Canada, the United States, and the Caribbean.

Emera has a history of steady dividend payouts

Emera has been consistently paying dividends for nearly a decade. The company currently pays $2.08 per share as dividends annually, yielding 4.45%. In addition, the company's dividends have increased by 5.8% annually over the past five years.

Emera has strong cash flows, sustaining its consistent dividend payouts. The company's trailing 12-month net operating cash flows are $1.19 billion. Moreover, Emera has a total cash balance of $304.75 million, translating to $1.15 cash per share.

According to Emera's internal forecast model, its annualized dividends are expected to grow in the range of 4-5% over the next two years. In addition, the company's long-term dividend-payout ratio to adjusted net income target is between 70% to 75%.

Strong profit margins for EMA stock

Emera's total annual revenues came in at $5.8 billion in 2021. In Q1 its net income stood at $362 million, up 32.6% year over year. The company's increased earnings contributions from Tampa Electric drove its profit margins in the first quarter of 2022.

Also, EMA's income from Florida Electric Utility and Canada Electric Utilities rose 35% and 11.4% from the first quarter of 2021. Emera ended Q1 with earnings of $1.38 per share — an increase of almost 28% year over year.

Emera's president and CEO Scott Balfour said, "Our regulated utilities performed well this quarter, particularly in Florida where robust economic and customer growth continue … Our proven strategy and progress to date positions us well to address this (climate) challenge, and to continue to deliver value and growth to our shareholders."

Transition to clean energy will be key for Emera

Emera has committed more than $5.3 billion in its capital plan for transitioning toward cleaner energy projects. The company plans to achieve a 55% reduction in net-zero carbon emissions by 2025 and achieve net carbon neutrality by 2050.

In 2021, Emera invested over $2.4 billion in its decarbonization and reliability projects. The company reduced its carbon dioxide emissions by 39% from its 2005 levels, while its coal usage declined by 65%.

In the company's 2021 annual report, Balfour said, "Across Emera, we have the right people executing on our proven strategy, ensuring we're well positioned to continue to provide predictable, sustainable growth in earnings and shareholder value."

Emera is an ideal defensive stock

Given the increased recession concerns across the globe, investors are increasingly focusing on stable dividend stocks to hedge the ongoing market uncertainties and generate a steady passive income.

Emera's annualized total shareholder return over the last 10 years (as of December 31, 2021) is 11.5%. The company expects to grow at a rate of 7-8% annually through 2024.

Bay Street analysts have assigned a consensus price target of $66 for EMA stock, indicating a potential upside of 10.82%. After accounting for its tasty dividend yield, total returns will be closer to 15%.

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