This High-Yield Dividend Stock Could Be One to Hold Forever

Description

Stock prices are inherently volatile. So, investors cannot rely on investment returns comprised solely of capital gains from price appreciation when designing a retirement plan. Dividend stocks, however, can change all that and provide a stream of regular passive income so you can sleep well at night. Some dividend stocks are worthy of being held forever in an investment portfolio, especially those that religiously increase their payout every year. **Emera Inc**. (TSX:EMA) could be one high-yield dividend stock to buy and hold forever.

Current yields do matter when selecting high-yield dividend stocks, as they determine your starting income. However, you should also consider other factors when selecting which dividend stock to buy and hold forever. For example, dividend growth prospects, balance sheet quality, business profitability, and management's commitment to dividend growth could also be significant factors. Regular dividend growth could increase your income yields to unbelievable heights.

For instance, North American utilities enjoy income protection from regulated cash flows. They have limited competition due to regulation, licensing, and huge initial capital requirements. Moreover, they deliver essential services to a growing population and an expanding industrial client base. Utilities are a good friend when designing a dividend portfolio, and this one has grown dividends for 16 consecutive years.

Why Emera Inc. is a dividend stock to hold forever

Emera Inc. is a diversified Canada-based utility with electricity generation and distribution assets at home. Additionally, it runs a gas utility business serving U.S., Canadian and Caribbean businesses and households. The $13.8 billion utility boasts a growing asset base, an expanding revenue base, and an increasingly profitable business. This solid asset base should support long-term dividend growth.

The company forecasts its $22.3 billion rate base in 2021 to grow at a compound annual growth rate (CAGR) of 7.9% to $29.7 billion by 2025. Revenue growth is premised on an ongoing $8 to $9 billion capital expenditure plan that is largely funded by internally generated cash flows.

Revenue growth will be key to Emera sustaining its dividend growth streak into the future. Management has historically executed for growth while maintaining an investment-grade credit rating for the business. The team can be trusted to deliver.

Emera generates about 95% of its business cash flows from regulated investments. The company has been successfully transitioning from coal power generation to natural gas and renewable energy sources. It reduced coal power from 47% of total energy generation in 2005 to just 6% by 2021 at Tampa Electric assets in the United States. Through investments in cleaner energy, Emera is buying more relevance in a future where climate change policies may dominate national and business politics.

The business could literally stand “forever” and continue to pay growing dividends to Emera stockholders.

Emera stock to keep growing its dividend

Emera stock pays a $0.69 per share quarterly dividend that currently yields 5.3% per annum. The company paid its first dividend back in 1992 and has been religiously increasing its payout every year for 16 consecutive years since 2007. The utility not only maintained the dividend; it increased the payout during two tough economic recessions.

Emera has grown dividends at a CAGR of 5% since 2005. Given the success in the implementation of its current capital investment program, management is targeting another 4-5% dividend growth rate each year through 2025.

Sustained dividend growth will protect investor’s income from inflation over the long term.

That said, any economic shocks and sudden interest rate hikes may negatively impact Emera’s borrowing costs, investment plans, and distributable cash flows. Power demand during recessions may be lower too. Thus, near-term dividend growth rates may be affected in some way.

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