



Emera Inc (EMRAF)

Updated September 27th, 2021 by Quinn Mohammed

Key Metrics

Current Price:	\$46	5 Year CAGR Estimate:	7.3%	Market Cap:	\$11.7 B
Fair Value Price:	\$41	5 Year Growth Estimate:	5.5%	Ex-Dividend Date:	10/29/21
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.1%	Dividend Payment Date:	11/15/21
Dividend Yield:	4.4%	5 Year Price Target	\$54	Years Of Dividend Growth:	13
Dividend Risk Score:	D	Retirement Suitability Score:	B	Last Dividend Increase:	3.9%

Overview & Current Events

Emera Inc. generates, transmits, and distributes electricity to a multitude of customers through its subsidiaries. Emera's segments include Florida Electric Utility, Canadian Electric Utilities, Other Electric Utilities, Gas Utilities and Infrastructure, and Other segments. The corporation generates electricity through coal, natural gas and oil, hydro, wind, solar, petroleum coke, and biomass-fuel. Emera owns \$31 billion in assets and serves 2.5 million customers in Canada, the US, and the Caribbean. The company generated \$5.5 billion in annual 2020 revenue.

Emera was incorporated in 1998 and is headquartered in Halifax, Canada. The company trades on the TSX under the ticker symbol EMA and on the OTC market under the ticker EMRAF. Additionally, Emera is listed on the Barbados Stock Exchange under the symbol EMABDR and on the Bahamas International Securities Exchange under the symbol EMAB. Emera has a market capitalization of \$11.7 billion USD.

Emera reported its second quarter results on August 11th. The company generated adjusted EPS of \$0.54 CAD, a 13% year-over-year increase. Year-to-date, adjusted EPS has grown 17% to \$1.49 from \$1.27 in the same prior year period. In the quarter, Tampa Electric filed a three-year settlement agreement, which would provide incremental increases in revenues starting on January 1, 2022, if approved.

On September 24th, Emera passed a 3.9% dividend increase from a prior annual dividend of \$2.55 CAD to \$2.65 CAD. Additionally, the company extended its dividend growth rate target of 4% - 5% through to 2025.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
AFFOPS	\$1.94	\$1.77	\$1.54	\$2.43	\$1.95	\$0.98	\$0.99	\$2.23	\$2.13	\$2.97	\$2.22	\$2.90
DPS	\$1.29	\$1.37	\$1.33	\$1.27	\$1.20	\$1.49	\$1.70	\$1.67	\$1.83	\$1.95	\$2.00	\$2.43
Shares¹	126.2	125.3	132.9	147.0	146.4	172.2	214.1	233.5	240.5	248.2	250.0	265.0

Emera reports earnings in \$CAD, but the above table displays earnings in \$USD per share. The following is based on results in USD; thus, results can be made more volatile due to currency fluctuations. Emera's earnings per share have been choppy in the last decade, with a floor in the 2016 and 2017 years, when the share count began to balloon. As a result, EMRAF has been able to grow earnings by 8.8% on average over the last five years, and 4.8% on average over the last nine years. Moving forward, we estimate Emera can grow earnings at a rate of 5.5% per annum.

The corporation will manage to grow its earnings primarily through rate increases, which the company expects to be in the range of 7.5% to 8.5% from 2021 to 2023. Emera has a large capital program with expected spending of \$7.4 billion to \$8.6 billion from 2021 to 2023. Over 60% of this capital program is related to decarbonization and reliability projects. Leadership expects the company's EPS and cash flow growth to track rate base growth over the long term. This EPS growth, in turn, is anticipated to lead to 4% - 5% growth in the dividend through to 2022. This, following a 6% dividend CAGR since 2000.

¹ In millions

Disclosure: This analyst has a long position in the security discussed in this research report.



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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
P/AFFO	16.5	19.3	20.9	12.9	16.9	35.9	36.8	14.5	18.5	13.8	20.9	18.5
Avg. Yld.	4.0%	4.0%	4.1%	4.1%	3.6%	4.2%	4.7%	5.2%	4.6%	4.8%	4.4%	4.5%

The stock has traded at an average multiple of 20.6 and 23.9 over the last nine and five years, respectively. Based on forecasted 2021 earnings, EMRAF trades at a P/E ratio of 20.6. We believe the current valuation to be slightly overvalued and assign a fair value of 18.5 times earnings. If this valuation were to unwind, we could see losses of 2.1% per year as a result.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	66%	77%	86%	52%	62%	152%	172%	75%	86%	66%	90%	84%

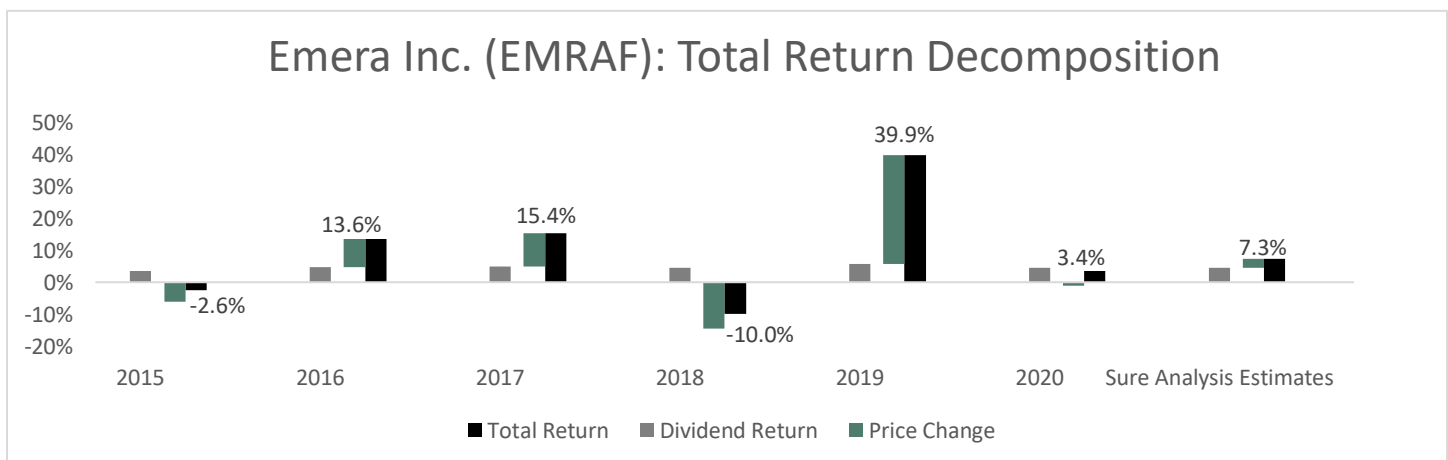
The company's dividend payout ratio has not been trouble-free, as it eclipsed the 100% mark in 2016 and 2017 and is forecasted to be in dangerous territory of 90% for the full 2021 year. Despite this, Emera has grown the dividend in \$CAD terms for the last thirteen consecutive years. The company continues to guide for mid-single digit dividend growth.

Emera emerged through the Great Recession unscathed, as its electric utility business is an essential service provided to customers in all economic times. In fact, it was during this recession that the corporation resumed increasing its annual dividend after some years-long pause. The company does not possess any strong competitive advantage in comparison to its regulated electric utility peers.

Final Thoughts & Recommendation

Emera is a Canadian based electric utility company which has paid a dividend every year since 1993 and has raised the dividend in the last thirteen consecutive years. The corporation has a healthy dividend history, but the payout ratio is forecasted to be in the very high range in 2021. The company will grow primarily through executing on its multi-billion dollar capital program and rate increases. Over the next five years, we estimate total annualized returns of 7.3% for the stock, coming from a current yield of 4.4%, a growth rate of 5.5%, and a valuation contraction of -2.1%. We rate the stock a hold at current prices as there is a fair expectation for growth and yield, despite trading 11% above estimated fair value.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2,088	2,059	2,166	2,662	2,185	3,230	4,804	5,034	4,604	4,109
Gross Profit	625	674	733	955	714	1,010	2,006	2,048	1,976	1,769
Gross Margin	30.0%	32.7%	33.8%	35.9%	32.7%	31.3%	41.8%	40.7%	42.9%	43.0%
D&A Exp.	266	294	305	309	276	448	657	716	686	671
Operating Profit	321	347	395	604	398	419	1,094	1,079	1,038	875
Operating Margin	15.4%	16.8%	18.3%	22.7%	18.2%	13.0%	22.8%	21.4%	22.5%	21.3%
Net Profit	251	232	230	392	335	193	227	576	533	734
Net Margin	12.0%	11.3%	10.6%	14.7%	15.3%	6.0%	4.7%	11.4%	11.6%	17.9%
Free Cash Flow	(73)	(36)	240	283	194	(20)	(259)	(364)	(731)	(736)
Income Tax	(24)	(12)	42	103	73	(17)	401	53	46	255

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	6,782	7,576	8,337	8,488	8,676	21,673	22,907	23,725	24,376	24,494
Cash & Equivalents	58	87	95	190	773	300	172	200	170	173
Accounts Receivable	304	286	380	307	293	530	640	620	539	447
Inventories	195	179	231	254	226	350	332	348	358	355
Goodwill & Int. Ass.	292	309	305	306	190	4,608	4,616	4,635	4,467	4,486
Total Liabilities	4,996	5,286	5,616	5,296	5,552	16,618	17,179	17,588	17,792	17,250
Accounts Payable	326	296	359	319	284	921	923	946	856	900
Long-Term Debt	3,447	3,734	3,879	3,456	3,391	11,648	12,025	12,186	12,032	12,035
Shareholder's Equity	1,423	1,667	1,967	2,317	2,516	4,446	5,092	5,369	5,789	6,431
D/E Ratio	2.20	1.81	1.58	1.18	1.12	2.34	2.13	2.00	1.83	1.67

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.9%	3.2%	2.9%	4.7%	3.9%	1.3%	1.0%	2.5%	2.2%	3.0%
Return on Equity	18.9%	15.0%	12.7%	18.3%	13.8%	5.5%	4.8%	11.0%	9.6%	12.0%
ROIC	5.0%	4.1%	3.6%	5.9%	5.1%	1.7%	1.3%	3.2%	2.9%	3.9%
Shares Out.	126.2	125.3	132.9	147.0	146.4	172.2	214.1	233.5	240.5	248.2
Revenue/Share	16.54	16.43	16.30	18.11	14.97	18.78	22.44	21.51	19.18	16.57
FCF/Share	(0.58)	(0.29)	1.80	1.92	1.33	(0.12)	(1.21)	(1.56)	(3.05)	(2.97)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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