



# Emera Inc (EMRAF)

Updated August 14<sup>th</sup>, 2023 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$38	<b>5 Year CAGR Estimate:</b>	9.9%	<b>Market Cap:</b>	\$10.5 B
<b>Fair Value Price:</b>	\$39	<b>5 Year Growth Estimate:</b>	5.0%	<b>Ex-Dividend Date<sup>1</sup>:</b>	10/31/2023
<b>% Fair Value:</b>	98%	<b>5 Year Valuation Multiple Estimate:</b>	0.3%	<b>Dividend Payment Date<sup>2</sup>:</b>	11/15/2023
<b>Dividend Yield:</b>	5.4%	<b>5 Year Price Target</b>	\$49	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## 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 C\$40 billion in assets and serves 2.5 million customers in Canada, the US, and the Caribbean. The company generated \$5.6 billion in annual 2022 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 \$10.5 billion USD.

On September 22<sup>nd</sup>, 2022, Emera increased its annual dividend to C\$2.76 from C\$2.65.

Emera reported its second quarter 2023 results on August 11<sup>th</sup>, 2023. The company reported quarterly adjusted EPS of C\$0.60, up a penny from C\$0.59 in Q2 2022. The company's interest expense rose by 37% year-over-year to \$223 million in the quarter, as a result of higher interest rates and increased total debt.

In accordance with Emera's current C\$3 billion capital plan, the company continues to deploy capital into investments and execute on advancing the corporation's strategy, including their clean energy transition. In the first half of 2023, Emera invested C\$1.4 billion as part of this strategy.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>Adj. EPS</b>	\$1.54	\$2.43	\$1.95	\$0.98	\$0.99	\$2.23	\$2.13	\$2.97	\$1.57	\$2.62	<b>\$2.35</b>	<b>\$3.00</b>
<b>DPS</b>	\$1.33	\$1.27	\$1.20	\$1.49	\$1.70	\$1.67	\$1.83	\$1.95	\$2.04	\$1.98	<b>\$2.05</b>	<b>\$2.55</b>
<b>Shares<sup>3</sup></b>	132.9	147.0	146.4	172.2	214.1	233.5	240.5	248.2	257.6	265.9	<b>275.0</b>	<b>300.0</b>

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 6.1% on average over the last nine years. Moving forward, we estimate Emera can grow earnings at a rate of 5.0% per annum.

The corporation will manage to grow its earnings primarily through rate increases, which the company expects to be in the range of 7.0% to 8.0% through 2025. Emera has a large capital program with expected spending of \$5.9 billion USD to \$6.7 billion through 2025. More than half 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

<sup>1</sup> Estimate

<sup>2</sup> Estimate

<sup>3</sup> In millions

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growth, in turn, is anticipated to lead to about 4.5% growth in the dividend through 2025. This, following a 5% dividend CAGR since 2005 in constant currency.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/AFFO	20.9	12.9	16.9	35.9	36.8	14.5	18.5	13.8	28.9	17.3	16.2	16.5
Avg. Yld.	4.1%	4.1%	3.6%	4.2%	4.7%	5.2%	4.6%	4.8%	4.0%	4.5%	5.4%	5.2%

The stock has traded at an average multiple of 21.6 and 18.6 over the last nine and five years, respectively. Based on forecasted 2023 earnings, EMRAF trades at a P/E ratio of 16.2. We believe the current valuation to be slightly undervalued and assign fair value at 16.5 times earnings, implying the potential for a valuation tailwind.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	86%	52%	62%	152%	172%	75%	86%	66%	130%	76%	87%	85%

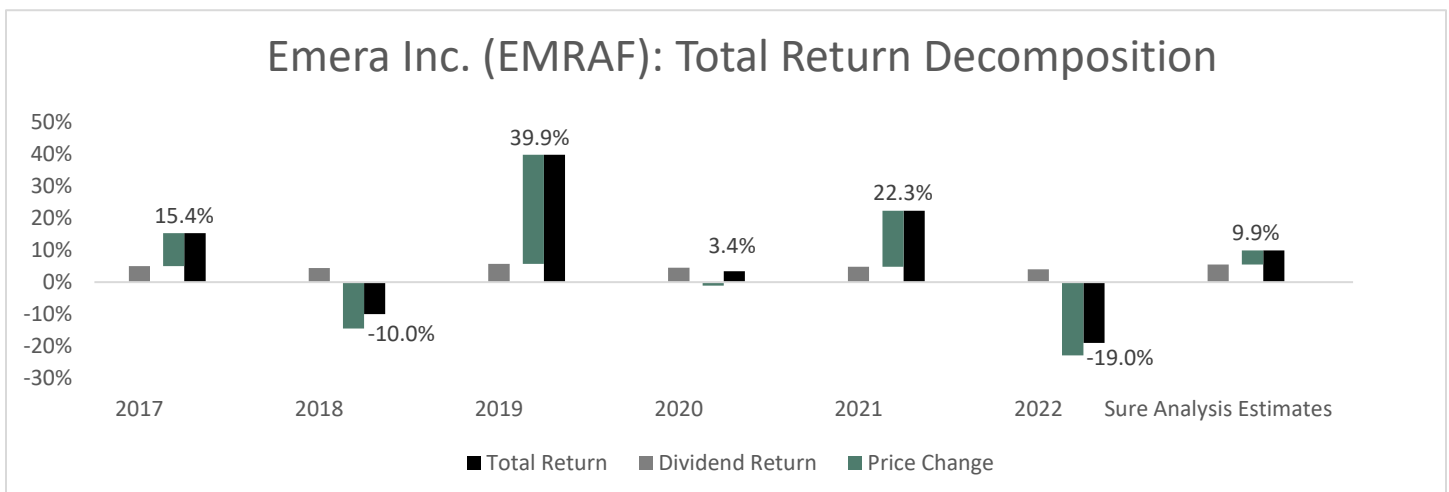
The company's dividend payout ratio has not been trouble-free, as it eclipsed the 100% mark in 2016, 2017 and 2021. Despite this, Emera has grown the dividend in \$CAD terms for the last sixteen consecutive years. The company continues to guide for mid-single digit dividend growth.

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 sixteen consecutive years. The corporation has a healthy dividend history, but the payout ratio is forecasted to remain in the high range. The company will grow primarily through executing on its multi-billion dollar capital program and rate increases. Over the next five years, we forecast annualized total returns of 9.9% for the stock, coming from a current yield of 5.4%, a growth rate of 5.0%, and the potential for a valuation tailwind. We rate the stock as a hold at the current price.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Revenue</b>	2,166	2,662	2,185	3,230	4,804	5,,034	4,604	4109	4,598	5,832
<b>Gross Profit</b>	733	955	714	1,010	2,006	2,048	1,976	1,769	1,724	2,322
<b>Gross Margin</b>	33.8%	35.9%	32.7%	31.3%	41.8%	40.7%	42.9%	43.0%	37.5%	39.8%
<b>D&amp;A Exp.</b>	305	309	276	448	657	716	686	671	730	737
<b>Operating Profit</b>	395	604	398	419	1,094	1,079	1,038	875	742	1,308
<b>Operating Margin</b>	18.3%	22.7%	18.2%	13.0%	22.8%	21.4%	22.5%	21.3%	16.1%	22.4%
<b>Net Profit</b>	230	392	335	193	227	576	533	734	447	775
<b>Net Margin</b>	10.6%	14.7%	15.3%	6.0%	4.7%	11.4%	11.6%	17.9%	9.7%	13.3%
<b>Free Cash Flow</b>	240	283	194	-20	-259	-364	-731	-736	-936	-1,294
<b>Income Tax</b>	42	103	73	-17	401	53	46	255	-5	142

## Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Total Assets</b>	8,337	8,488	8,676	21,673	22,907	23,725	24,376	24,494	26,858	29,282
<b>Cash &amp; Equivalents</b>	95	190	773	300	172	200	170	173	309	228
<b>Accounts Receivable</b>	380	307	293	530	640	620	539	447	602	808
<b>Inventories</b>	231	254	226	350	332	348	358	355	422	567
<b>Goodwill &amp; Int. Ass.</b>	305	306	190	4,608	4,616	4635	4,467	4,486	4,467	4,430
<b>Total Liabilities</b>	5,616	5,296	5,552	16,618	17,179	17,588	17,792	17,250	18,897	20,852
<b>Accounts Payable</b>	359	319	284	921	923	946	856	900	1,165	1,492
<b>Long-Term Debt</b>	3,879	3,,456	3,391	11,648	12,025	12,186	12,032	12,035	12,863	14,032
<b>Shareholder's Equity</b>	1,967	2317	2,516	4,446	5,092	5,369	5,789	6,431	6,819	7,372
<b>LTD/E Ratio</b>	1.58	1.18	1.12	2.34	2.13	2.00	1.83	1.67	1.62	1.67

## Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
<b>Return on Assets</b>	2.9%	4.7%	3.9%	1.3%	1.0%	2.5%	2.2%	3.0%	1.7%	2.8%
<b>Return on Equity</b>	12.7%	18.3%	13.8%	5.5%	4.8%	11.0%	9.6%	12.0%	6.7%	10.9%
<b>ROIC</b>	3.6%	5.9%	5.1%	1.7%	1.3%	3.2%	2.9%	3.9%	2.2%	3.6%
<b>Shares Out.</b>	132.9	147.0	146.4	172.2	214.1	233.5	240.5	248.2	257.6	266.0
<b>Revenue/Share</b>	16.30	18.11	14.97	18.78	22.44	21.51	19.18	16.57	17.16	21.93
<b>FCF/Share</b>	1.80	1.92	1.33	-0.12	-1.21	-1.56	-3.05	-2.97	-3.49	-4.86

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

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