



Emera Inc (EMRAF)

Updated March 7th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$36	5 Year CAGR Estimate:	11.4%	Market Cap:	\$10 B
Fair Value Price:	\$39	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	04/26/2024
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date²:	05/15/2024
Dividend Yield:	5.9%	5 Year Price Target	\$50	Years Of Dividend Growth:	0
Dividend Risk Score:	D	Retirement Suitability Score:	B	Rating:	Buy

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\$39 billion in assets and serves 2.5 million customers in Canada, the US, and the Caribbean. The company generated \$5.7 billion in annual 2023 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 billion.

On October 11th, 2023, Emera increased its annual dividend to C\$2.87 from C\$2.76.

Emera reported its fourth quarter 2023 results on February 26th, 2024. The company reported quarterly adjusted EPS of C\$0.63, down 32% from C\$0.93 in Q4 2022. Excluding the impact of a litigation award in the prior year period, adjusted EPS declined 17%. The company's interest expense rose by 30% year-over-year to \$925 million for the full year, as a result of higher interest rates and increased total debt.

In accordance with Emera's C\$8.9 billion 3-year capital plan, the company continues to deploy capital into investments and execute on advancing its strategy, including its clean energy transition. The source of funds for this program are reinvested cash flows (50% to 55%), net debt issuances (25% to 35%), and equity issuance (15% to 25%).

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Adj. EPS	\$2.43	\$1.95	\$0.98	\$0.99	\$2.23	\$2.13	\$2.97	\$1.57	\$2.62	\$2.69	\$2.38	\$3.04
DPS	\$1.27	\$1.20	\$1.49	\$1.70	\$1.67	\$1.83	\$1.95	\$2.04	\$1.98	\$2.10	\$2.13	\$2.65
Shares³	147.0	146.4	172.2	214.1	233.5	240.5	248.2	257.6	269.0	277.7	280.0	320.0

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 has been lumpy in the last decade, with a floor in the years 2016 and 2017, when the share count began to balloon. As a result, EMRAF has been able to grow earnings by 1.1% annually on average since 2014, and 3.8% annually since 2018. Moving forward, we forecast that Emera can grow earnings-per-share 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 2026. Emera has a large capital program with expected spending of \$6.6 billion USD through 2026. More than half of this capital program is related to decarbonization and reliability projects. Leadership

¹ Estimate

² Estimate

³ In millions

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expects the company's EPS and cash flow growth to track rate base growth over the long term. This level of EPS growth should support a 4.5% growth rate in the dividend through 2029.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
P/AFFO	12.9	16.9	35.9	36.8	14.5	18.5	13.8	28.9	17.3	14.5	15.2	16.5
Avg. Yld.	4.1%	3.6%	4.2%	4.7%	5.2%	4.6%	4.8%	4.0%	4.6%	5.3%	5.9%	5.3%

The stock has traded at an average multiple of 21.0 and 18.6 over the last ten and five years, respectively. Based on forecasted 2024 earnings, EMRAF trades at a P/E ratio of 15.2. We believe the current valuation to be slightly undervalued and peg fair value at 16.5 times earnings, implying the potential for a valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	52%	62%	152%	172%	75%	86%	66%	130%	76%	78%	89%	87%

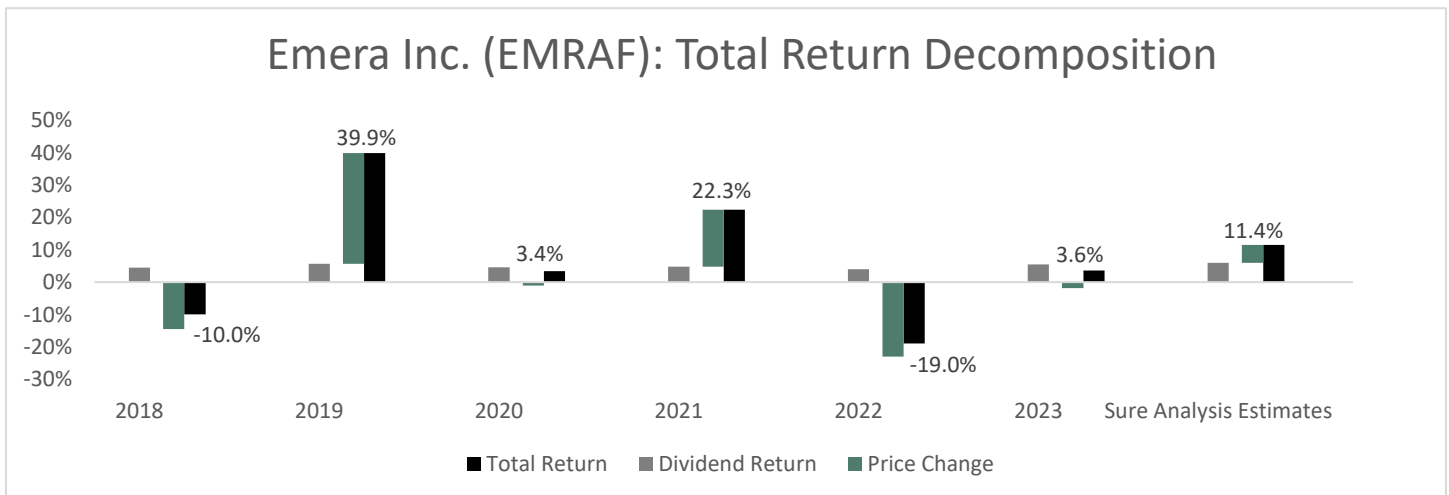
The company's dividend payout ratio has not been trouble-free, as it eclipsed the 100% mark in 2016, 2017 and 2021. Despite this, Emera has grown the dividend in its Canadian currency for the last seventeen consecutive years. The company continues to guide for mid-single digit dividend growth.

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 seventeen consecutive years in its native Canadian currency. The corporation has a healthy dividend history, but the payout ratio is forecasted to remain elevated. 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 11.4% for the stock, stemming from the current yield of 5.9%, a growth rate of 5.0%, and a 1.6% valuation tailwind. The stock maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	2,662	2,185	3,230	4,804	5,034	4,604	4,109	4,598	5,832	5,601
Gross Profit	955	714	1,010	2,006	2,048	1,976	1,769	1,724	2,322	2,426
Gross Margin	35.9%	32.7%	31.3%	41.8%	40.7%	42.9%	43.0%	37.5%	39.8%	43.3%
D&A Exp.	309	276	448	657	716	686	671	730	737	785
Operating Profit	604	398	419	1,094	1,079	1,038	875	742	1,308	1,355
Operating Margin	22.7%	18.2%	13.0%	22.8%	21.4%	22.5%	21.3%	16.1%	22.4%	24.2%
Net Profit	392	335	193	227	576	533	734	447	775	773
Net Margin	14.7%	15.3%	6.0%	4.7%	11.4%	11.6%	17.9%	9.7%	13.3%	13.8%
Free Cash Flow	283	194	-20	-259	-364	-731	-736	-936	-1,294	-515
Income Tax	103	73	-17	401	53	46	255	-5	142	95

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	8,488	8,676	21,673	22,907	23,725	24,376	24,494	26,858	29,282	29,760
Cash & Equivalents	190	773	300	172	200	170	173	309	228	427
Accounts Receivable	307	293	530	640	620	539	447	602	808	607
Inventories	254	226	350	332	348	358	355	422	567	596
Goodwill & Int. Ass.	306	190	4,608	4,616	4,635	4,467	4,486	4,467	4,430	4,426
Total Liabilities	5,296	5,552	16,618	17,179	17,588	17,792	17,250	18,897	20,852	20,650
Accounts Payable	319	284	921	923	946	856	900	1,165	1,492	1,096
Long-Term Debt	3,456	3,391	11,648	12,025	12,186	12,032	12,035	12,863	14,032	14,920
Shareholder's Equity	2,317	2,516	4,446	5,092	5,369	5,789	6,431	6,819	7,372	8,030
LTD/E Ratio	1.18	1.12	2.34	2.13	2.00	1.83	1.67	1.62	1.67	1.64

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.7%	3.9%	1.3%	1.0%	2.5%	2.2%	3.0%	1.7%	2.8%	2.6%
Return on Equity	18.3%	13.8%	5.5%	4.8%	11.0%	9.6%	12.0%	6.7%	10.9%	8.8%
ROIC	5.9%	5.1%	1.7%	1.3%	3.2%	2.9%	3.9%	2.2%	3.6%	3.3%
Shares Out.	147.0	146.4	172.2	214.1	233.5	240.5	248.2	257.6	266.0	273.8
Revenue/Share	18.11	14.97	18.78	22.44	21.51	19.18	16.57	17.16	21.93	20.46
FCF/Share	1.92	1.33	-0.12	-1.21	-1.56	-3.05	-2.97	-3.49	-4.86	-1.88

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

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