A ‘transformational’ year for Emera, with more to come

The company completed a major U.S. acquisition that effectively doubled its size, established a plan to spend about $8.3 billion on capital investments and more

Chris Huskilson, Emera President and CEO

For Halifax-based Emera Inc. it’s been a year of milestones: It completed a major U.S. acquisition that effectively doubled its size; it established a plan to spend about $8.3 billion on capital investments over the next four years, decisions that will ensure continued growth; it was added to the S&P/TSX 60 index, a move that attracts index fund investors; and, thanks to a plan to grow its dividend by about 8 per cent a year over the next four years, it has a happy band of largely retail investors.

“It’s been a transformational year,” said Chris Huskilson, the company’s president and chief executive, on a visit to Toronto this past week where he hosted an annual investor dinner. Huskilson, who has held both positions for the past dozen years, made that assessment based on two major factors:

- The completion, in July of the US$6.5 billion acquisition of TECO Energy, which operates in Florida and New Mexico. That transaction is accretive, boosts the share of its earnings from regulated businesses to almost 90 cent and when combined with operations in Bahamas and Barbados means 70 per cent of its earnings comes from outside Canada; and
- the company's continued evolution into a producer of clean energy with coal being used to produce about 30 per cent of its electricity (or 38 per cent when TECO is added in).

Huskilson said the scale and clean energy transitions "are turning into great opportunities for the company." Apart from bringing gas and solar production facilities on board in Florida, Huskilson said that two nearby U.S. states, Connecticut and Massachusetts are seeking more clean energy. Those two states want 1.5 times the annual consumption in Nova Scotia.

"One of our plans is to be in a good position to supply that," he said, noting that the so-called Atlantic Link Option, a subsea cable running to Boston from Nova Scotia, could be used to meet that demand. "That (link which is now being worked on and is expected to last 50 years) will allow us to bid on those opportunities."

And Huskilson adds clean energy is a "customer expectation that over time we reduce, reduce and reduce (emissions). It's a gradual transition but (has to be) cost effective for the customers."

He cites Florida as an example where solar-produced electricity will become more of a priority, even greater than what the state government has determined. A couple of factors are at play: customer appetite; and economics. "It's becoming cheaper and more of a competitive opportunity," said Huskilson.

Given the complexity and regulatory hurdles required to complete a U.S. acquisition, how keen is Huskilson to do a second one? If the right opportunity presented itself, the company would be interested he said, provided that the bulk of the target's business was regulated. "Our shareholders want us to be (in) more regulated (businesses)," because of the predictability of returns, he said. Meantime the $8.3 billion in planned capital expenditures will provide considerable internal growth.

And such expenditures mean that Emera will be a frequent issuer in the capital markets. (It recently priced a $300 million equity financing.) It has a targeted capital structure split between debt (55 per cent); equity (35 per cent) and hybrids (10 per cent.) To reach those targets by the end of the decade, de-leveraging is required.

Emera, which probably won't seek a U.S. stock listing, is followed by 12 analysts, eight of whom rank it a buy. Target prices range from $47–$62. The shares closed Friday at $44.50. On a total return basis the stock is up 7.42 per cent this year or about half the gain for the S&P/TSX Utilities Index.

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Barry Critchley: bcritchley@postmedia.com