



3 Stocks Set to Grow Because of This Important Secular Trend

Description

An important secular trend that investors need to take notice of is the global push to cleaner renewable sources of energy. This has arisen because of growing concerns over global warming and the need to reduce greenhouse gas emissions.

As a result, many countries have established ambitious clean-energy targets with a focus on the reduction of coal-fired power generation, which is one of the largest producers of carbon dioxide emissions. This will have a significant financial impact on electric utilities such as **TransAlta Corporation** and **Capital Power Corporation**, which generate a considerable amount of their total electricity output from coal-fired plants.

However, it also creates a powerful secular tailwind for those companies generating electricity through cleaner and more environmentally friendly means.

Now what?

There are a number of Canadian electric utilities that are well positioned to take advantage of this secular trend. Here are three that merit further attention.

First is **Brookfield Renewable Energy Partners L.P.** ([TSX:BEP.UN](#))([NYSE:BEP](#)). It operates a globally diversified portfolio of clean-energy assets in North America, Brazil, Ireland and Portugal, with a focus on hydroelectricity, which is probably one of the most cost effective and efficient assets to operate.

These assets give it 7,000 megawatts of installed capacity, and it continues to grow that capacity through acquisitions, the most recent being the \$860 million acquisition of a 292 megawatt hydroelectric portfolio in Pennsylvania.

This growth, along with its wide economic moat and the secular tailwind to cleaner electricity generation, will drive further earnings growth, which will support its impressive 6% dividend yield.

The second opportunity is beaten-down electric utility **Atlantic Power Corporation**

(TSX:ATP)(NYSE:AT). It operates a portfolio of energy assets with over 2,000 megawatts of capacity across North America, with a focus on cleaner natural gas power generation.

Atlantic Power's share price has remained under considerable pressure because it committed the cardinal sin of overleveraging its balance sheet to acquire questionable assets. This forced it to divest assets and reduce expenses, including slashing its dividend in order to boost cash flow and reduce debt, attracting the ire of investors.

Nonetheless, it now appears to have turned the corner; its debt is now six times EBITDA and it is close to achieving its target of five times EBITDA. With its share price off by 10% for the year to date coupled with its 4% dividend yield, Atlantic Power appears to be an attractive turnaround opportunity for risk-tolerant investors.

Finally, investors should consider clean-energy company **Northland Power Inc.** ([TSX:NPI](#)). Unlike either Brookfield or Atlantic Power, it offers exposure to solar and thermal electricity generation; it has a 1,300 megawatt portfolio of clean-energy assets located in primarily in Canada.

It is also focused on expanding this portfolio. It is constructing wind projects in the Netherlands and Germany that will give it an additional 600 megawatts of capacity.

Northland pays a tasty 6% yield that, despite having a payout ratio in excess of 100%, appears sustainable. This is because once the European wind projects come online, Northland should experience a nice bump in earnings and, along with decreased capital spending, its bottom line should grow.

So what?

All three companies offer investors the ability to take advantage of the secular trend to cleaner energy, which will act as a powerful tailwind for their earnings growth. Of the three, Brookfield remains my firm favourite, but Northland's portfolio of thermal and solar assets, along with its focus on expanding its European wind farm operations, is an interesting play.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
3. TSX:NPI (Northland Power Inc.)

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