



How to Get a Big, Reliable Dividend With Renewable Energy

Description

Founded in 1990, **Innergex Renewable Energy Inc.** ([TSX:INE](#)) is one of the leading independent renewable power producers in Canada. Around 70% of its production comes from hydroelectricity, 20% comes from wind, and 10% comes from solar. This generation mix makes it one of the few pure plays in renewable-energy production.

While you may be worried about the volatility of renewable energy, Innergex has actually developed a fairly low-risk business model that is capable of generating a stable and growing dividend. With the yield now at 5.2%, here are a few reasons why Innergex is a reliable, high-income option to round out your energy exposure.

Predictable cash flows

Most of the company's revenues come from high-quality, long-life contracted assets. Once a hydro plant, wind farm, or solar project is put in place, it will almost always be the lowest-cost provider in the area. According to *Bloomberg*, offshore wind and hydroelectricity projects produce cheaper energy (even without subsidies) than coal plants. Plus, because the wind and rivers flow fairly predictably over the course of a year, Innergex realizes the same cost of production nearly year round.

This is a big advantage when competitors need to deal with commodity-price fluctuations in coal or natural gas.

All of these advantages are demonstrated in the company's strong fundamentals. Since 2010 power generation has more than doubled with EBITDA rising from \$68 million to \$180 million last year. By 2017 management expects to be generating \$105 million in free cash flow per year. That means shares trade at a 9% free cash flow yield based on next year's results. That's a great value, especially considering the long-term opportunities for growth.

Positioned for the future

Renewable energy isn't just for "ethical" investors anymore. The falling cost of renewable energy (especially wind, hydro, and solar) is making it uneconomical to build any other type of energy

source. In OECD countries, renewables are expected to account for 80% of all new power generation. Globally, renewable generation is expected to grow 5.4% per year by 2020. Finally, it looks like both economists and environmentalists can agree that renewables have a big future to play in global power generation.

While the underlying financials have grown in recent years, Innergex has the balance sheet flexibility necessary to take advantage of market growth.

“Few companies can boast a visible organic growth program like Innergex in the current market context,” an analyst at BMO Capital Markets said. “That growth profile in particular should drive a significant increase in contracted free cash flow next year that is likely not being fully appreciated by the market.”

With \$425 million in secured borrowing capacity left and mounting internal cash flows, Innergex is well positioned to capitalize on what could be multi-decade opportunities.

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1. Editor's Choice

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Author

rvanzo

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