Ontario Cancels Green Energy Projects: Will Renewable Stocks Lose?

Description

In mid-September, Alberta announced new subsidies and tax breaks that will support over $13 billion in renewable power projects.

The new initiative, which will be funded from a new carbon tax, will help the province reach its ambitious goal of 30% renewable power generation by 2030. If the goal is met, it will result in 5,000 megawatts of new clean energy projects like wind, solar, and hydro.

The news brought optimism to renewable energy stocks like **Hydro One Ltd.** (TSX:H) and **Canadian Solar Inc.** (NASDAQ:CSIQ).

On September 27, however, the Ontario government tempered the growing excitement when it cancelled plans to sign contracts for up to one gigawatt of power from renewable energy sources. It'll reduce provincial renewables spending by roughly $3.8 billion.

According to *The Canadian Press*, "The Progressive Conservatives have been demanding the Liberals stop signing long-term contracts for expensive renewable energy projects, and said Ontario's high electricity rates are driving businesses out of the province."

Will stocks like Hydro One and Canadian Solar face troubles ahead?

Hydro One will become a powerful dividend-payer anyway

As one of the largest electric utilities in North America, Hydro One's coverage already reaches 98% of Ontario's energy demand. And because 99% of its business is regulated, the company's growth prospects are largely guaranteed, including contractually obligated rate increases and predetermined returns on capital.

For example, through 2020 the company expects its rate base to grow by 4.9% a year, while capital expenditures will remain flat. It's allowed a roughly 10% return on equity each year, but on a consolidated basis, don't be surprised if Hydro One beats this highly probable hurdle mark.

Any capital investment it has to make is likely end-of-service life infrastructure which has no other option than to be upgraded or replaced. The Ontario province has very little wiggle room in cutting the budget on these assets.

The stock's $0.84 per share annualized dividend currently equates to a 3.2% yield. Management targets a payout ratio between 70% and 80% of net income, so growing profits should result in growing dividends for years to come.

Canadian Solar will see major growth outside Canada

From 2000 to 2010, the world only installed a cumulative 120 GW of solar PV. In 2014 alone, solar PV installations reached 184 GW, comprising 0.5% of total global electricity generation. By 2030, it's expected to hit 1,835 GW–over 10% of total global electricity generation.

Having access to economies of scale and existing relationships with financing partners is a huge advantage in a market driven by price.

In 2011 Canadian Solar could only install solar projects at a cost of $1.32 per watt. Last year it used its growing scale along with falling industry costs to install projects at an average of just $0.41 a watt. Last quarter it lowered that to just $0.39 a watt. By the end of next year the company anticipates hitting a cost of $0.29 a watt.

Despite Ontario's spending drop, don't expect Canadian Solar to lose any steam. A growing market and falling costs are two major ingredients for success.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NASDAQ:CSIQ (Canadian Solar Inc.)
2. TSX:H (Hydro One Limited)

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