



## Will Northland Power Inc. Cut its Dividend?

### Description

**Northland Power Inc.** ([TSX:NPI](#)) shares have had a nice run of nearly 40% since mid-2015 while delivering a nice yield. Investors who'd bought in mid-2015 would have started with a juicy yield of 6.4%.

The stock's recent performance doesn't look nearly as good, though. Year to date, the shares have hardly budged. In recent years, the utility hasn't increased its payout like some of its peers have.

Can the company maintain its dividend or even increase its payout in the future?

First, let's explore its business.

### What does Northland Power do?

Northland Power was founded in 1987 and has traded publicly since 1997. It develops, builds, operates, and has interests in facilities which produce electricity from clean and renewable energy sources, including natural gas, biomass, wind, and solar.

Currently, it has a net interest in 1,724 MW of generating capacity with assets in Canada, the United States, and Europe. It generates about 55% of its electricity from thermal energy, 38% from wind energy, and 6.7% from solar energy.

### Recent developments

#### offshore wind generation

In late April, Northland Power completed Gemini, its first offshore wind farm, under budget and ahead of schedule. The 600 MW facility in the North Sea will begin contributing to the company's cash flows in the second quarter.

In the first quarter, the utility also made great progress in Nordsee One, another wind facility in the North Sea. As of early May, 14 of 54 turbines have been installed. The 332 MW offshore wind farm is

expected to be complete by the end of the year.

Northland Power is also working on acquiring Deutsche Bucht, a 252 MW offshore wind project in the German North Sea, for \$1.8 billion. The acquisition is expected to close in the next few months. Because the project already has long-term power-purchase agreements signed, it would increase the stability of the utility's cash flows if it were to be acquired successfully.

### **Is Northland Power's dividend sustainable?**

Usually, investors trust a growing dividend more than one that doesn't grow. So, Northland Power's sustained dividend per share since 2007 may raise doubts about its dividend safety.

However, I think it's because the utility has maintained the same payout for almost 10 years that management seems committed to its dividend. Moreover, Northland Power's offshore wind project investments should bring in more cash flow to improve the safety of its dividend.

Management estimates the company's free cash flow payout ratio to be 91-105% this year. In January, the management had strong ownership, totaling about a 35%, of the company. So, its interest is aligned with that of shareholders, and it's likely to want to maintain the dividend.

Indeed, in the first quarter, management stated that it was committed to maintaining the current monthly dividend and, if necessary, use temporary measures, such as a line of credit. In the meantime, its dividend-reinvestment plan also improves the company's liquidity.

### **Investor takeaway**

Northland Power has a diversified portfolio of clean and renewable power-generating facilities. The shares are reasonably valued at about \$23.40 per share and offer a 4.6% yield. However, the shares would be a stronger buy below \$22 for a yield closer to 5%.

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2. Investing

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### Date

2025/08/14

### Date Created

2017/05/22

### Author

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