A Top Renewable Energy Stock With a Safe 6% Yield

Description

It’s not every day that an investor can pick up shares of a high-yielding company at a discount. The world is making a transition to sustainable energy from the burning of fossil fuels. This is a trend that will stick around for the long run, and right now, investors can get in on the action while collecting a growing stream of steady income.

TransAlta Renewables Inc. (TSX:RNW) is one of the largest developers, owners, and operators of renewable power-generation facilities in the world. The company has a solid portfolio of North American assets including 18 wind facilities, 13 hydro facilities, and one gas-fired facility. These facilities provide approximately 1,248 MW, 112 MW, and 506 MW, respectively, of generating capacity. The company also owns Australian gas assets, including seven gas-fired facilities which yield 575 MW and a 43% interest in a 270-km gas pipeline.

A solid, growing dividend

At the time of writing, the company yields a bountiful 6.06% dividend yield, which has grown by a substantial amount over the last few years thanks to accretive acquisitions. Since the company’s IPO in August 2013, it has seen a ~6% dividend-per-share compound annual growth rate. The company plans to keep its payout ratio in the 80-85% range as it continues its streak of annual dividend hikes.

Shares of TransAlta Renewables trade at a 14.2 forward price-to-earnings multiple and a 1.7 price-to-book multiple. Based on these two metrics, the stock certainly looks undervalued, especially when you consider that the company is a dividend-growth king in the making.

The company has a solid balance sheet and a diversified asset base which allows investors to get a great deal of exposure to the Australian market without venturing into the Australian Securities Exchange. Investors can also expect a great deal of stock price appreciation over the next few years as the company continues to make deals to support future dividend hikes.

Although the dividend is on the high end, cautious income investors should sleep easy knowing that dividends paid are completely covered by free cash flow thanks to the management team's prudent approach of returning cash to shareholders.

Shares of RNW are currently over 10% off from 52-week highs, so it would be a wise move to start picking up shares on this current dip before the stock takes off.

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joefrenette