Bearish on Oil? Put Wind in Your Investment Sails

Description

It is easy to be bearish on oil. It is hard to get behind an oil producer or pipeline company without feeling like that investment opportunity is a strategy of the past. People have been saying oil is dead for years. This is likely not the case, but the traditional thesis on energy is changing.

A *Bloomberg* “New Energy” finance report from April 2017 stated, “Clean energy installations broke new records worldwide in 2016, and wind and solar are seeing twice as much funding as fossil fuels.” There are energy companies to offer forward-thinking business. Consider this wind company.

Pattern Energy Group Inc.

One alternative energy contender — dare I say front-runner? — is **Pattern Energy Group Inc.** (TSX:PEGI)(NASDAQ:PEGI). PEGI is a renewable energy company with operations in Canada, the United States, and Chile; it has a $2.2 billion market cap and has been trading on the TSX and NASDAQ since October 2013. There are a lot of appealing aspects to this company.

Consider some of the pros for PEGI:

- Revenue has been growing year over year. The compound annual growth in revenue is 43%, which is very high for an energy company. As a comparison, well-known and established energy stock **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) has increased revenue by 14% per annum.
- The company's earnings performance is quite adequate and is moving in the right direction. For instance, enterprise value to earnings before interest, tax, depreciation, and amortization (EV/EBITDA) is ideally in the low teens. PEGI has been dropping its EV/EBITDA in recent years, taking it down to 13, which is a level that is competitive with Enbridge.
- This is not your classic energy investment, but in many ways, PEGI fulfills this role with a 5.5% dividend yield.
- In June, PEGI announced new money for capital initiatives, with backing from a major Canadian pension fund called Public Sector Pension Investment Board. The two new wind projects, one in British Columbia, the other in Quebec, are expected to generate 322 megawatts of power. The pension fund will have 10% stake in PEGI.

Consider some of the cons for PEGI:

- Valuations tend to be high in this sector, but PEGI is higher than the norm. It has a super-high price-to-earnings ratio (P/E) of 72 at the moment, whereas the industry average is 61 (also high, but lower than PEGI).
- Earnings per share are expected to drop in the third quarter of 2017. Estimates are negative, in fact.
- Price momentum is negative, and this may be largely due to company insiders that have been selling at the highs. For instance, insiders were buyers at $25 and $26 per share, while others were selling a few months later this August in the $32-per-share range.

Bottom line on PEGI

You will make more friends if you cheer for wind energy. The business of alternative energy has reached a critical mass that is intriguing and exciting to watch. Pattern Energy Group has a solid footing with 20 wind power facilities in place. This company can fill the energy quota in your portfolio. I'm predicting a pullback for this stock due to various factors. This stock may take a quick tack around the $28-per-share support level, and then it could be smooth sailing.

CATEGORY

1. Energy Stocks
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