



Better Buy: Algonquin Power & Utilities Corp. or Northland Power Inc.?

Description

Do you ever wish you could have a high dividend yield and next-level stock price appreciation with the same stock? Well, with renewable energy stocks, you can have your cake and eat it too!

Many Canadian renewable energy stocks have yields well above the 4% mark, and it's also likely that these dividends will experience major growth over the next few years as the world transitions to renewable energy sources. In addition to having high, growing dividends, many renewable stocks have delivered astounding capital gains over the last few years, and more of the same is likely in the cards!

Algonquin Power & Utilities Corp. ([TSX:AQN](#))([NYSE:AQN](#)) has more than doubled over the last five years, all while paying out huge dividends that make income-oriented investors very happy. Utility stocks are generally praised as being stable income plays that aren't known for growth or capital gains, but renewable energy stocks are another beast.

They've got the ability to drive long-term cash flow through the roof by making accretive acquisitions of stable, unique assets that are about as predictable and boring as they get. The Canadian government is also unlikely to stand in the way of a renewable energy company, so I think there's a lesser degree of political risk than with other emerging industries, like the cannabis industry.

You can certainly make a lot of green (profit!) over the long term by thinking green. Let's have a look at two Canadian renewable players and see which is the better bet right now!

Algonquin Power & Utilities Corp.

Algonquin has a solid portfolio of renewable and water assets along with a solid long-term growth profile, which could support further dividend hikes down the road.

The company recently delivered an underwhelming Q2 2017 report, which saw adjusted EPS of \$0.13, just missing analyst expectations by a cent. The slight EBITDA miss can be attributed to lower-than-expected operating margins at Liberty Power, but I do not believe this is a sign that the company's long-term growth trajectory is getting knocked off course.

Algonquin still has a robust growth pipeline that'll drive a huge amount of cash flow over the medium term. That means more dividend hikes can be expected in the years ahead. However, with a premium growth profile and assets comes a premium valuation.

Shares currently trade at a hefty 33.83 price-to-earnings multiple, which is definitely not cheap, but patient investors who are willing to wait it out can collect a fat 4.42% yield.

Northland Power Inc. ([TSX:NPI](#))

If you're a value investor who wants to get in on renewables for a much better price, then you may want to consider Northland Power.

In Q2 2017, the company reported an EBITDA of \$168.2 million, which beat the consensus forecast of \$149.7 million thanks to its recently completed Gemini wind farm. The company recently upped its guidance for 2017 and now expects adjusted EBITDA in the \$710-750 million range, up from \$660-710 million.

The company currently has a 4.6% dividend yield and a payout ratio that has been gradually improving thanks to contributions from recently finished projects like Gemini. Going forward, it's expected that the payout ratio will continue to improve, and, eventually, there'll likely be room for more dividend raises. The German offshore wind project Nordsee One has over 80% of its turbines installed and is on schedule to reach COD by the end of this year.

The company has a solid contracted pipeline with ample room for growth at a reasonable valuation. Shares of NPI currently trade at a 19.39 price-to-earnings multiple, which is a small price to pay considering the company's sound growth prospects.

Better buy?

Northland Power looks like the much better buy at current levels thanks to its modest valuation and its pipeline of earnings-growth projects that'll send earnings on an upward trajectory through 2020. Although AQN also has an impressive growth profile, I believe at its current price, there's less upside to be had when compared to NPI.

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Author

joefrenette

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