How to Get Nice Dividends From Energy Stocks

Description

There are energy stocks that are volatile, offer little to no dividends, and have little predictability in their profitability because of volatile energy prices. Therefore, it's difficult to estimate the returns one would get from these investments.

Then there are other energy stocks that generate relatively stable earnings or cash flows and offer stable, growing dividends.

Today, we'll discuss examples from the second group of stocks — namely, **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) and **Brookfield Renewable Partners LP.** (TSX:BEP.UN)(NYSE:BEP).

Algonquin

Algonquin has demonstrated stable cash-flow-per-share growth in the recent past, which has allowed the company to increase its dividend per share for seven consecutive years. It currently offers a compelling yield of ~4.8%. Furthermore, management aims to grow Algonquin's dividend per share by 10% per year on average through 2022.

Algonquin has about 70% of its portfolio in regulated utility assets, which are primarily its electric, natural gas, water distribution, and wastewater collection utility systems, across 12 states in the United States. The earnings and growth from this portfolio are stable and predictable.

Then there's Algonquin's power portfolio, which has a net generating capacity of about 1,500 MW. This portfolio primarily consists of wind generation (68% of portfolio). Although it's non-regulated, more than two-thirds of its output has long-term agreements, which implies stable cash flow generation.

Brookfield Renewable

Brookfield Renewable is one of the largest pure-play renewable companies available to retail investors.

It has $40 billion of power assets with 16,400 MW of generating capacity across 841 power-generating facilities in 24 markets in 14 countries.

Over 90% of Brookfield Renewable's cash flow is contracted under long-term agreements with credit-worthy counterparties. So, it generates stable, growing cash flow.

So far, Brookfield Renewable has increased its distribution per share for six consecutive years. Going forward, management aims to grow its distribution per share by 5-8% per year on average. In fact, it's already confidently laid out the quarterly distribution per share that it'll pay for the year. Currently, the stock offers a ~6.5% yield after a meaningful pullback.

Tip

Notably, both Algonquin and Brookfield Renewable offer U.S. dollar-denominated distributions, which investors can opt to receive in the U.S. currency, assuming their investment accounts allow U.S. currency to be held. This option is a good way for you to save some fees by avoiding currency exchange if you intend to pool your money to buy U.S. stocks anyway.

Investor takeaway

Algonquin and Brookfield Renewable are relatively stable investments in the energy space that offer stable growth and steadily growing dividends. Both stocks are reasonable buys after the recent dips.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:BEP (Brookfield Renewable Partners L.P.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

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