This High-Yield Green Energy Stock Is Deeply Discounted

Description

Currently trading at $24.35, **Northland Power Inc.** (TSX:NPI) is substantially discounted by over 50% of its future cash flow value ($80.40). Needless to say, that's a pretty phenomenal percentage, so let's now comb through its vital stats to see if we're missing the catch.

Is this the lean, green dividend machine you've been looking for?

Northland Power is a high-yield stock coming up to its ex-dividend date (June 28). That gives you a little bit of time to review its fundamentals and other data before you add it to your dividend portfolio. We've done some of the homework for you, though, so let's take a look at what we came up with.

First of all, you're looking at a 28.2% return on equity over the next three years, so if it's a growth stock you're after, then Northland Power has you amply covered. Future earnings are what makes this stock so attractive, aside from its dividends. Speaking of which, it's currently paying out an annual 4.94% yield and is set to rise to 5.13% next year. So far, so good for income investors.

It's a good conscience buy, too, as its assets cover renewables (as well as natural gas). Sustainable energy sources are hot property right now, making green energy a fashionable investment area. Also, the fact that these assets are divided up between Canada and Europe (Germany and the Netherlands, to be precise) should be good news to anyone watching the current global trade situation. With new international trade deals likely to be drawn up over the coming months and years, having a company that links Canada to affluent countries in Europe may not be a bad thing.

Catch? What catch?

If there is a downside, it's that Northland Power is holding some debt, although its EBIT is 3.1x its coverage of that debt through interest. A quick look through its fundamentals flattens this potential speed bump somewhat, however: With a PE of 20.8 time earnings, Northland Power is good value compared to the Canadian renewables sector as a whole, and its price to expected growth is also looking good, at 0.9 times earnings.

Now let's come back to Northland Power's undervaluation. It's looking at a projected 22% annual increase of earnings, which leads to the calculation of that potential future share value of $80.40 we mentioned earlier. If you *are* concerned about debt, perhaps give the stock a try and see how it performs. If you like its growth in earnings, but its revenue growth doesn't do it for you (expected to be 1% per year), you can always sell high when the share price rises.

The bottom line

Northland Power is a fairly healthy stock that pays a decent dividend and is currently trading below its value. If you're looking for a sturdy green energy pick to head off a shaky economy or pad out your TFSAs and RRSPs, then this one might be for you. The stock is coming up to its buy limit near the end of the month, however, so you might want to act fast in order to cash in on its next dividend payout mid-July.

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