Should You Buy Canada's Top 2 Green-Power Stocks?

Description

Green power is a great area of investment if you've been buying up shares in the regular oil and gas companies and want to diversify within your energy section, It's also a good place to start if you are light on energy and want to find a sustainable provider to invest in. Renewable energy is a good idea for long-term investors, since the very nature of its sustainability lends itself to the buy-and-hold forever ethos.

Here are two of the best currently trading on the TSX index, with their market fundamentals and some data pertinent to quality combed through for clarity.

Northland Power (TSX:NPI)

Discounted by more than 50% of its future cash flow value, this heavyweight of green Canadian energy is looking all right in terms of earnings, with a P/E of 17.1 times earnings. Its PEG ratio of 0.8 times growth looks good too. However, Northland Power is trading at P/B of 5.1 times book at the moment, making this stock a little off-colour.

A 21.3% expected annual growth in earnings over the next one to three years is great to see, however, with a return on equity of 24% last year adding significantly to this stock's quality. A dividend yield of 5.55% is the icing on the cake. In terms of trend, Northland Power has seen a steep drop-off since the start of July, down to almost its 52-week low, which may be good news for certain types of momentum investors.

So far, so good, but how's the competition?

If you want to look at two indirect competitors for comparison, have a peek at **Algonquin Power and Utilities**, and **Capital Power**. Otherwise, consider **TransAlta Renewables** (TSX:RNW) for an alternative sustainable energy stock or as a way to beef up that part of your portfolio.

TransAlta Renewables is discounted by more than 50% of its future cash flow value, so there's no real difference between the two stocks here. A P/E of 32.6 times earnings for TransAlta Renewables looks high, though, as does a PEG of 3.7 times growth. In fact, a P/B ratio of 1.3 times book is really the only acceptable market fundamental here.

An 8.7% expected annual growth in earnings over the next one to three years doesn't quite touch the outlook of the former stock, but is at least positive. Likewise, TransAlta Renewables falls down on its ROE at just 4% last year. However, where this stock shines is that dividend yield of 7.87%. That's a decent yield for any stock on the TSX, and TransAlta looks set to go the distance. In other words, this is a strong buy for long-term passive-income investors.

The bottom line

So, the latter stock has a fatter dividend; but what really separates these two stocks is something else: debt. Look at TransAlta Renewables's so-so debt level of 43.2% of net worth. It's really not that bad when you compare it to the 534.3% of net worth in debt that Northland Power holds. However, both stocks have a lot going for them and could be held together in an investment portfolio that's light on energy or needs more renewables.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:NPI (Northland Power Inc.)
2. TSX:RNW (TransAlta Renewables)

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