



Aggressive Investors Will Like This Energy Stock

Description

The press release announcing **Just Energy Group** (TSX:JE)(NYSE:JE) had acquired **Filter Group**, a leader in the home water filtration market, flew across my computer screen September 10.

The only thing I could think of at the time was, who is Just Energy and why should I care?

I write about stocks in the U.S., Canada, and sometimes overseas, too. While I like to think I've got a steel trap for a brain, the truth is, no one can know them all. I certainly didn't know Just Energy.

So, I've dug into the company's business. Here's what I've found.

Who is Just Energy?

Based in Toronto, it was founded in 1997. Just Energy's original business was providing fixed-price, variable rate, and flat bill electricity and natural gas usage contracts to consumers in Canada, the U.S. and overseas. Currently, it has more than 1.6 million residential and commercial customers.

For most people, this means a slippery salesperson showing up on your doorstep looking to sell you a contract that costs you an arm and a leg, enriching the company and putting you in the proverbial poor house.

However, the business of reselling energy in and of itself isn't the enemy — something Fool contributor Nelson Smith argued in a 2017 article.

"I'm the first to admit that a door-to-door business model isn't ideal. It incentivizes sales reps to stretch the truth. By the looks of it, thousands of sales reps have done exactly this. Even if a sales rep tells the truth, a disappointed customer with high expectations is still a problem," Smith [wrote](#). "But after doing a little bit of research online, I realized something. Every company in the energy-reselling business has thousands of former customers that hate them — just like every major bank or telecom company or grocery store."

The truth: If you own a house or run a business and are looking for cost certainty from your energy expenses, energy resellers like Just Energy can be a necessary evil.

What else do they do?

Just Energy is in the middle of transitioning from being solely a retail energy provider to a consumer company focused on adding value to its customers.

That's why it acquired the Filter Group for \$15 million in cash, the assumption of \$22 million in debt, and an earn-out of \$48 million based on 12 million shares at current prices.

"This strategic acquisition is expected to allow Just Energy to achieve profitable customer growth through differentiated value-added products, and diversify its product mix with non-commodity products and services offerings," stated Just Energy CEO Patrick McCullough in the press release announcing the acquisition.

Just Energy has 1.6 million customers, many of whom could be in need of a water filtration system for their home or office. Now, it's not just a reseller of energy, making a spread between what it pays for natural gas and electricity and what the customer pays, but a provider of products and services to make your home or office healthier and more energy efficient.

In some ways, it reminds me of how **Amazon.com** is using its Prime membership to sell homeowners virtually everything needed to maintain a household.

I'd look for it to make further water-related acquisitions.

Does it make money?

It does.

That said, profits have been shrinking in recent years. In fiscal 2016, it had base funds from operations (FFO) of \$138.2 million. In fiscal 2017, that declined 7.5% to \$127.8 million, and in 2018, it declined by 28.6% to \$91.2 million.

Earnings in fiscal 2018 were significantly lower as a result of mild summer weather, customer disruptions caused by Hurricane Harvey, and increased costs related to diversifying its sales.

As a result, the payout ratio for its dividends jumped from 54% in 2016 to 95% in the past year. In the first quarter of 2019, its payout ratio was 123% compared to 106% in the same quarter a year later.

Just Energy says it's committed to paying a dividend, although it has reduced the quarterly payment several times in the past few years. It currently pays 12.5 cents a quarter for a 12.5% yield.

Down 36% over the past year, as Fool contributor David Jagielski [said](#) in August, it appears to be oversold.

If you're an aggressive investor, the risk/reward might be to your liking, but only place a bet if you can afford to lose your entire nut.

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