My Favourite Renewables Stock Is Both a Dividend Stock and a Growth Stock

Description

High debt loads, big capital spending requirements, and long project construction timelines all characterize the renewable energy sector.

But this is where the future lies, and investors have been and can expect to continue to be handsomely rewarded for sticking with this theme with an eye on the long term.

Northland Power (TSX:NPI), a well-diversified clean-energy company that offers exposure not only to solar power, but also to wind and thermal power, is my favourite renewables stock. It is both a dividend stock and a growth stock for investors.

Northland stock has a four-year return of 48%, all while generating a dividend yield of well above 5%. The dividend yield currently stands at 5.31%. In December 2017, the company instituted an 11% dividend increase.

Northland's management owns approximately 35% of the shares outstanding, so their interests are aligned with shareholders'.

And 98% of the company's revenues are from long-term power contracts, so there is good stability in the company's financial results.

These are very attractive features of this stock, which serve to provide confidence in the company.

In fact, in fiscal 2017, Northland reported free cash flow per share of $1.46, a 4% increase versus 2016. And in the first quarter of fiscal 2018, Northland reported free cash flow per share of $0.84, a 250% increase compared to the same period the prior year.

Northland has been around for more than 30 years, successfully constructing and operating independent power projects, and it has a proven management team at the helm.

In terms of future growth, Northland has an offshore wind facility that is under construction, slated to be completed in the second half of 2019. Also, the company is looking to Taiwan, whose government plans to invest heavily in offshore wind, fixed-term contracts.

Brookfield Renewable Partners (TSX:BEP.UN)(NYSE:BEP) is another high-quality renewables company, but its focus is on hydroelectric generating facilities.

Its portfolio of low-risk, high-quality projects makes this a steady, stable investment, with 80% of the portfolio contracted until 2019, and the portfolio consisting of mostly long-life, low-cost hydro facilities.

With a 17% compound annual growth rate since its inception 20 years ago, Brookfield's strategy of acquiring renewable power assets and businesses below intrinsic value, financing them on an investment-grade basis, and optimizing their value and cash flow has sure paid off.

In 2017, funds from operations per unit increased 31% to $581 million, and management instituted a 5% distribution increase.

Brookfield stock is currently yielding 6.33% and targeting annual distribution increases of between 5% and 9% annually.

Brookfield continues to be an interesting option, but its payout ratio is quite high at 70% of funds from operations, and this represents an added risk that will cause some investors to stay away.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
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