2 Renewables Stocks to Buy for a Long-Term Energy Portfolio

Description

Green energy is an interesting investment topic for a few reasons. First, it's highly politically charged — but we won't get into that here. Second, the range of renewables on offer is excitingly varied; adding green energy stocks to your portfolio is a bit like going to a buffet and getting a bit of everything: wind, solar, natural gas, and biomass.

The third interesting thing about renewables is that no two stocks are alike in terms of their valuation, quality, momentum, or outlook. Take the two stocks below as a case in point: here you will find some good value, some dividends, and some high growth, but not all in the same stock. Let's see whether any of them is better than the others.

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN)

Algonquin Power & Utilities often gets included in these kinds of lists as a stock to compare with. Here, though, we're going to head the piece off with this popular green power stock. If you're trying to balance the oil stocks in your portfolio, or if you don't yet hold any energy stocks and want to go green, Algonquin Power & Utilities is a great place to start.

The hard part is, Algonquin Power & Utilities is not known for being undervalued. In fact, today, this stock is overvalued by more than twice its future cash flow value. It doesn't stop there, either: a high P/E ratio of 75.5 times earnings counts this one out for value investors. A PEG ratio of 3.1 times growth likewise isn't what bargain-hunting investors want in a stock. A P/B of 1.7 times book isn't too bad, though, so you're paying too much over the odds in terms of assets.

A 24.6% expected annual growth in earnings over the next one to three years is great to see and means that here is a stock that is ideal to plug straight into a growth portfolio. If you're looking to buy and hold, be aware that this stock pays a good dividend: its yield is currently 4.87%. Return on equity was 2% last year, which is a little low, and a debt of 98% net worth may put off the more risk averse.

Northland Power (TSX:NPI)

Selling at half its future value in terms of cash flow is this very popular green energy pick. Sadly, again, Northland Power may be hiding some overvaluation in other areas. While a P/E of 17.9 times earnings and PEG of 1.1 times growth look solid enough, a P/B of 5.3 times book means that you are paying more than this stock is worth in terms of assets.

A 16.8% expected annual growth in earnings over the next one to three years may put this stock on the radar for growth investors. However, a debt level of 534.3% net worth is a far from welcome item on this stock's balance sheet and may make for too top-heavy an asset for risk-wary investors. In terms of quality, a return on equity 24% last year and decent dividend yield of 5.3% make for a tempting pick, however.

The bottom line

If you still need some green energy for your portfolio, Northland Power remains your go-to choice for a diversified range of solar, biomass, wind, and natural gas. A company with its eye on the future, this is a good stock to pick up if you like to see management investing in new initiatives. Meanwhile, Algonquin Power & Utilities might be your best bet for growth and dividends and much lower debt.

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1. Dividend Stocks
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