The Huge Dividend on This Green-Energy Utility Stock Is Worth Checking Out

Description

The recent market drop has added a whole new difficulty to my investing life. For years I had difficulty finding income stocks, especially utilities, for which I could pay a reasonable price due to their lofty valuations. I now have so many to choose from that it is becoming difficult to decide which I should buy. As a general rule, I have tried to buy shares of the larger, more established companies before even considering purchasing those of smaller companies. But I have bought my desired amount of many of the larger companies and would like to check out some of the smaller ones.

These companies might be a valuable addition to an income portfolio.

Canada has a number of larger, more mature utilities like **Fortis** and **Emera**, which offer excellent yields and reasonable growth. But it also has some smaller companies worth looking at as well. **Northland Power** (TSX:NPI) is one such company that might be worth adding, especially considering how it has pulled back over the last few weeks as interest rates put pressure on dividend stock prices.

Its share price has had quite a drop in recent weeks from its 52-week high of over $25 reached only a couple of months ago to its current price of just over $20. While that drop has been painful for investors, it has resulted in a yield of about 6%, which makes it very tempting to long-term investors. Northland is focused on green-energy generation. The company builds, owns, and operates power generation facilities primarily in Canada and Europe, with the majority of them located in Ontario. The majority of its facilities produce energy generated from natural gas, wind, solar, and biomass facilities. The company is developing new sites in Canada and Europe.

Being a smaller company that is trying to grow its business, the biggest problem facing Northland is its relatively small size and somewhat concentrated business. Northland has a lot of its facilities in Ontario and may be vulnerable to changes in political policy. If a government were to change the way green energy is priced in the region, it may negatively impact Northland's earnings. At the moment, this is just speculation, but should nonetheless be considered as a risk before investing in the company.

The 6% dividend is one reason why an investor should consider taking a stake in Northland. The dividend is paid out from the company's regulated earnings and should therefore be relatively safe.

The dividend is paid out on a monthly basis — an attractive bonus for income-focused investors.

Free cash flow in the second quarter was one of the few disappointments in the company’s operating results at $0.21 a share, down from $0.57 a share the same period a year earlier. The company noted that the decrease was due to a number of one-time items, such as the costs resulting from the completion of a European offshore wind farm. Other results were quite good, with net profit increasing 12% and sales increasing 5% over the previous year.

Northland is a good company to add to your stock portfolio if you want to own something smaller with a little more growth potential. Its European assets also help diversify geographically away from the more American-centred utilities. But it is a riskier play for a utility. Add this company if you are okay with the slightly heightened risk and enjoy the monthly 6% dividend.

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