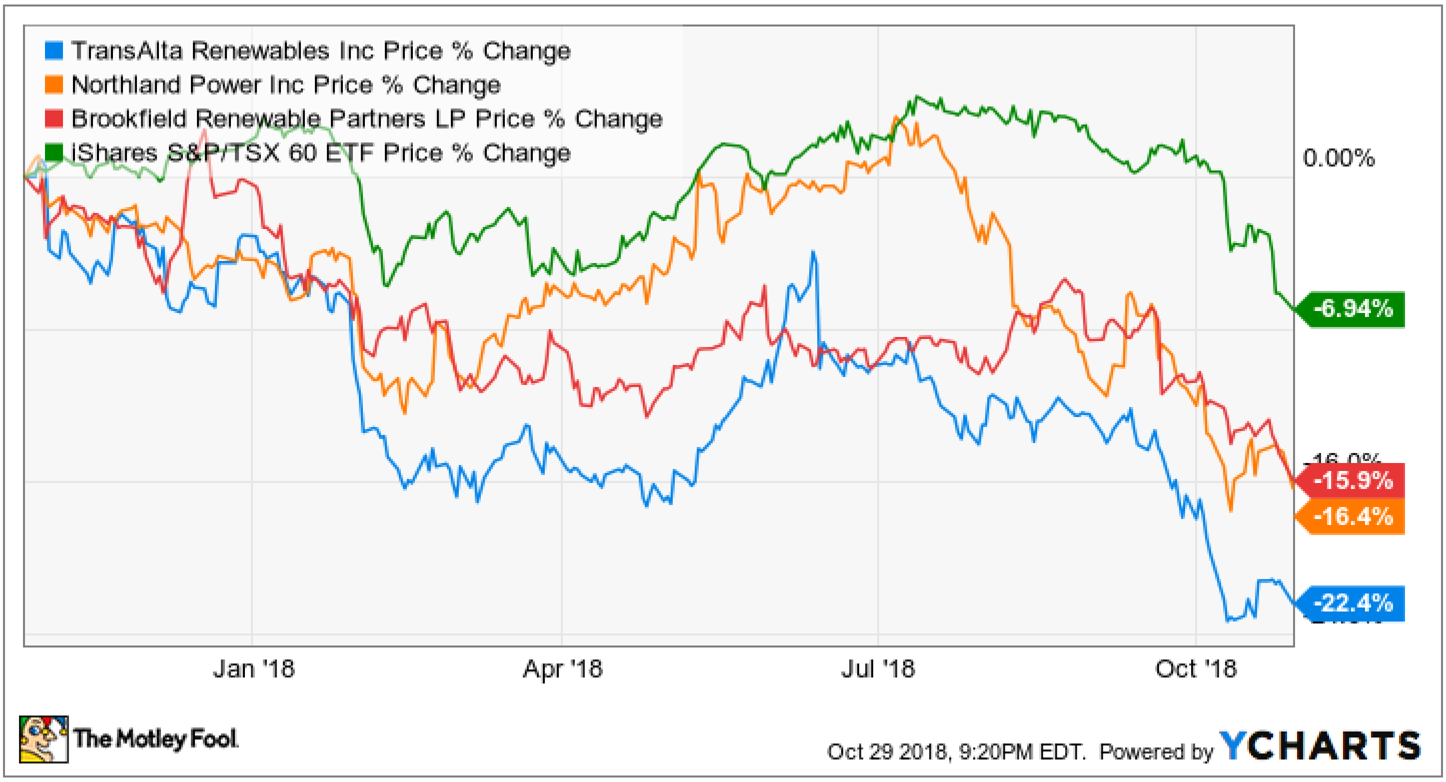
High-Yield Renewable Energy Stock Battle Royale: Who Wins?

Description

Big dividend yields and stable contracted cash flow generation are general characteristics of renewable energy stocks. With the latest pullback, they are absolutely attractive income generators. Let's explore **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP), **Northland Power** (TSX:NPI), and **TransAlta Renewables** (TSX:RNW) as potential ideas.

In the last 12 months, the group has underperformed the market in terms of price returns. That's good news for income investors because the lower their stock prices go, the bigger their yields become, as long as they maintain their dividends.



RNW data by YCharts. Last 12-month price action of TSX:BEP.UN, TSX:NPI, TSX:RNW, and the Canadian market, using TSX:XIU as a benchmark.

Here's an overview of their businesses and scale.

The businesses

Brookfield Renewable has more than 17,000 MW of generating capacity with US$43 billion of assets under management across 10 countries in four continents. Its diversified portfolio is primarily comprised of 76% hydroelectric generation (218 facilities on 82 river systems) and 20% wind generation (more than 100 wind farms). It also has 55 solar facilities.

Northland Power has about 2,000 MW of generating capacity and more than 1,300 MW that are in advanced stages of development or are under construction. It has about 40% in thermal generation, 30% and 10%, respectively, in offshore and onshore wind generation, and 5% in solar. It has a growing presence in Canada, the United States, Mexico, Latin America, Europe, and Taiwan.

TransAlta Renewables has interests in about 2,400 MW of generating capacity across 21 wind facilities, 13 hydroelectric facilities, seven natural gas generation facilities, and a solar facility. It has operations in Canada, the United States, and Australia.

Dividend safety

As of writing, Brookfield Renewable, Northland Power, and TransAlta Renewables offer yields of about 6.8%, 5.9%, and 8.8%, respectively.

In the first half of the year, Brookfield Renewable paid out about 84% of its funds from operations, but it aims to reduce the payout ratio to about 70% in the long run.

Northland Power's free cash flow payout ratio in the last year was about 67%. TransAlta Renewables's payout ratio based on cash available for distribution was 80% in the first half of the year. So, all three companies' cash distributions should be sustainable.

Outperformance

The five-year annualized returns of Brookfield Renewable, Northland Power, and TransAlta Renewables are about 12%, 12.7%, and 8.1%, respectively.

Since late 2007, before the last market crash, Brookfield Renewable and Northland Power delivered annualized returns of about 10.4% and 8.8%, respectively. TransAlta Renewables was excluded from this comparison because it was only listed on the Toronto Stock Exchange in 2013.

Who wins?

In the limited historical data available, TransAlta Renewables underperformed the other two. Going forward, Brookfield Renewable and Northland Power will likely provide higher growth.

Since these renewable stocks are primarily income investments, investors may prefer the one with higher visibility in dividend growth, in which case it'd be Brookfield Renewable. This year will be its seventh consecutive year of dividend growth.

Given Brookfield Renewable's leading global position and large-scale platform, income investors should be pleased with its stable 5-9% cash distribution growth per year by buying it for a juicy yield of 6.8% right now. At today's attractive valuation, investors should also be delighted about the total-return prospects of a long-term investment.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
3. TSX:NPI (Northland Power Inc.)
4. TSX:RNW (TransAlta Renewables)

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