This Dividend Stock Can Nearly Guarantee You Steady Income

Description

Innergex Renewable Energy (TSX:INE) is a clean energy powerhouse.

The company operates 37 hydro facilities, 25 wind farms, four solar complexes, and two geothermal projects. While roughly two-thirds of the business is located in Canada, it also has exposure to France, Chile, Iceland, and the U.S.

While the company focuses on renewable energy projects, it's a move based on financials rather than ethics. Since 2014, it's more than doubled both revenue and EBITDA. Plus, the assets in place are some of the most resilient you'll find.

Let's dig deeper on why Innergex is the ideal blend of growth, stability, and income.

Long term, predictable contracts

One of the great features of renewable energy is that the cost of production is very predictable. While the prices of commodities like oil, natural gas, and coal can fluctuate wildly, wind and solar generation are fairly steady from year to year. That's a huge advantage for Innergex compared to other utilities.

For example, most utilities operate under power purchase agreements, or PPAs. These agreements can last anywhere from a few years to multiple decades. They typically guarantee a certain rate base along with a regulated price for energy. If a utility's input costs rise unexpectedly, it could find margins squeezed given it has fixed selling prices. Sometimes these contracts have escalators for input cost inflation, but they don't always cover the full expense increase.

Because it has highly visible input costs, Innergex can enter extremely long contracts without worrying about being able to turn a profit from a fixed selling price. Today, nearly two-thirds of its power generation is tied to PPAs with a contract life of 10 years or more. The average age of its assets is under 10 years old, meaning it shouldn't be a problem to meet the demands of these agreements for years to come, likely with nominal maintenance costs.

In total, Innergex's strategy of combining renewables with long-term contracts provides investors with a rare level of stability throughout any market.

Slow and steady wins the race

Because it has a level of stability that few companies can match, Innergex can afford to pay big chunks of its cash flow. Over the last five years, its payout ratio has averaged around 85%. If it does run into temporary problems, the company has investment-grade revolving credit facilities supported by 15 unencumbered assets.

Since 2014, the company has increased its dividend each year, reaching $0.68 per share in 2018. Today, that's good for a 4.7% yield. Looking forward to the next dividend increase, it's likely investors are getting a 5% yield on a potential 2019 payout.

Today, the company has 2,091 megawatts of energy generation in service. Over the next 24 months, the company anticipates reaching nearly 2,800 megawatts of production — a 40% increase. That increase should boost revenues by $38.8 million and EBITDA by $29.9 million.

Long term, it sees opportunities for more than 8,000 megawatts of installed capacity.

With low financing costs, predictable input expenses, ample growth opportunities, and long-term contracts averaging 15.9 years, Innergex provides investors with a slow but steady income machine. While shares won't pop 50% or more anytime soon, you'll likely be glad you purchased shares during a market downturn.

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1. TSX:INE (Innergex Renewable Energy)

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