



## This \$600 Million Energy Stock Has a Hidden \$2.2 Billion Asset

### Description

**Just Energy Group Inc** (TSX:JE)(NYSE:JE) flies under the radar with a market cap of just \$600 million, but upon closer inspection, it could be one of the best growth and income opportunities on the TSX today.

### Say hello to a huge dividend

Just Energy has been in business for more than 20 years, providing 1.7 million customers worldwide with electricity and natural gas commodities, energy efficiency solutions, and renewable energy options. Each quarter, the company adds between 200,000 and 300,000 customers.

The company owns a litany of brands, such as Amigo Energy, Green Star Energy, Hudson Energy, Interactive Energy Group, Just Energy Advanced Solutions, Tara Energy, and EdgePower Inc.

While the company does operate in unregulated markets, which increases its exposure to wild swings in input costs, Just Energy has done a terrific job hedging its risk to provide fairly stable profitability quarter to quarter. For example, in 2014, its gross margin per customer was \$166. Last quarter, gross margins rose to \$229 per customer. For the period in between, margins per customer never fell below 2014 levels.

As their contracts renew, management sees an opportunity to increase gross margins by more than \$100 per customer, a 40% increase from current levels.

Relative stability and ample cash flow have allowed Just Energy to pay out a serious dividend, which currently yields 11.2%. Its \$0.125 quarterly dividend hasn't changed since 2014. Management consistently highlights its commitment to an "attractive dividend yield," so anticipate this yield standing as long as cash flows remain steady.

Looking at the company's current order book, it's likely that the current dividend will continue.

## A \$2.2 billion hidden asset

While it's not accounted for in the company's balance sheet, Just Energy has a \$2.2 billion order book, providing a visible path to growing cash flows and supporting the current dividend. With long-term debt of \$660 million, Just Energy's enterprise value is around \$1.2 billion, a near 50% discount to its order book alone.

For 2019, management expects to generate EBITDA in the range of \$200 million to \$220 million, meaning shares trade at just 3 times EBITDA. Long term, the company aims to grow EBITDA by 10% annually with a payout ratio under 75%.

Just Energy seems to be doing everything right. It's consistently adding new customers, implementing price increases with little pushback, paying an impressive dividend, and identifying new opportunities for growth.

For example, the company anticipates growing value-add products by 23% per year over the next five years. These products include items that customers already demand, including smart home products like ecobee smart thermostats. Just Energy is finding quick success with high-margin offerings like this, selling thousands of smart thermostats every month with little marketing push.

In 2019, value-add products will contribute just 5% of EBITDA. By 2021, they could represent up to 20% of EBITDA, according to management. That brings yet another highly profitably way to increase its billings per customer.

## Commit for the long haul

Operating in deregulated energy markets can be difficult, but Just Energy's management team has proven its ability to navigate turbulent markets throughout several cycles. While the company has ample opportunity to boost its rate base and pricing over the next few years, the market is paying very little attention, perhaps because the company's market cap is so small.

Backed by a \$2.2 billion order book, future cash flows should arise without difficulty. The market should reward Just Energy investors eventually, but in the meantime, you'll get paid an 11.2% dividend to wait—not a bad consolation prize.

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