



Meet the Newest Dividend Machine: Boralex Inc. (TSX:BLX)

Description

With a market cap of just \$1.6 billion, most investors haven't heard of **Boralex Inc.** ([TSX:BLX](#)). However, if you're an income investor, this stock is a must-know.

Over the past decade, Boralex stock has crushed the TSX average. Along the way, the company has put into place dozens of key assets that should provide years of consistent, reliable cash flows. This steady income stream has allowed it to pay a dividend that currently stands at a healthy 3.6%. Looking ahead, this payout could go on steroids.

Allow me to introduce you to the next big thing in dividend investing.

Pushing renewables forward

Much like **Innervex Renewable Energy Inc** and **Brookfield Renewable Partners LP**, Boralex develops, builds, and operates renewable energy infrastructure. The company's projects span multiple areas of Canada, France, the United Kingdom, and the United States.

Last year, Boralex operated 1,400 megawatts of wind and 156 megawatts of hydro, supplemented by small amounts of solar and natural gas. With 1,619 megawatts in operation, Boralex should add an additional 277 megawatts by the end of 2019, moving closer to its target of 2,000 megawatts by 2020.

In total, think of Boralex as a wind company, as that source generates 88% of its earnings. Geographically, 51% of its business comes from Canada, with 45% derived from France. Its U.S. and U.K. exposures are fairly minimal.

What's so special about this stock?

The biggest advantage that Boralex has is that 98% of its power generation is under long-term contracts. Compare this to unregulated companies like **Just Energy Group Inc**, which has exposure to volatile energy prices and changing rate bases. If the company's input costs rise, as commodities

often do, it's forced to compress margins and profitability. Boralex doesn't have this problem.

While critics often peg renewables as an intermittent, potentially unreliable source of energy, those claims are simply untrue. When building a wind farm, operators are incredibly specific about where they place each turbine, completing months, or even years of wind studies to ensure consistent, reliable winds. Once built, most wind farms generate power consistently for 70% to 80% of days. On an annual basis, production metrics are easily forecastable.

Plus, because the energy has zero input costs, Boralex isn't exposed to rapid changes in input costs. The wind, thankfully, is always free.

So, Boralex's business is highly predictable, with stable cost structures and long-term contracts underpinning its income stream. These profits easily support the current 3.6% dividend, and over the next few years, it could double or triple in size, giving early income investors a handsome yield on their original cost basis.

Growth will shift to income

Boralex aims to grow its production to above 2,000 megawatts, and it already has the contracts in place to hit this target. With its current dividend comprising just 50% of discretionary cash flows, the company could double the payout if it wanted to focus on distributions over growth. That would cause the yield to pop from 3.6% to 7.2% overnight.

While that's unlikely to happen quickly, it should give investors relief to know that as soon as growth opportunities dry up, the stock could become an income machine. For now, growth opportunities mask the company's growing cash stream, but over time, investors will be rewarded with impressive dividends.

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