Forget About Aurora Cannabis Inc. (TSX:ACB)! This Stock Is a Surer Win

Description

Aurora Cannabis stock is trading near the high end of its trading range. Additionally, it is not yet profitable. So, it's, at best, a speculative play. And it'd be a speculative trade if the stock declined to less than $7 per share.

For a surer win, investors should look into **Northland Power** (TSX:NPI), which offers upside and income. The stock came crashing down 9% yesterday after it announced a secondary offering of common shares. The drop could be a great opportunity to buy. Here's why.

What matters about the secondary offering

Jim Temerty, the founder and chairman of Northland Power, is selling shares for gross proceeds of $750 million at $23.35 per share. Since the sale price is lower than the previous market close price of $25.74 per share, the stock naturally dropped to about $23.35 per share.

The reason Mr. Temerty is selling these shares is purely for estate-planning purposes. Besides, after this secondary offering, he'll still own a big piece of the company. (Specifically, he'll still indirectly or directly own or control about 12-14.7% of the issued and outstanding voting shares.)

Why the stock drop can be a great opportunity

The stock decline could be a good starting point to grab some shares, as it had no fundamental change in the business.

The independent power producer aims to participate in projects that offer contracted revenue, thereby generating predictable cash flow. It has amassed a portfolio of clean-energy facilities that are powered by natural gas, wind, solar, hydro, or biomass. Northland Power has a net generating capacity of 2,014 MW across 26 power-generation facilities, totaling $8 billion of assets.

In 2018, Northland Power had an excellent year. It reported adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) of $891 million, an increase of 17% from 2017. Additionally, free cash flow rose 30% on a per-share basis to $1.90. This represents a payout ratio of less than 64% of free cash flow.

After the stock decline, Northland Power is once again yielding north of 5%. Now can be a great opportunity to start buying the stock before the utility completes the Deutsche Bucht offshore wind project by the end of the year.

Risk

The one thing that's a little concerning is Northland Power's relatively high debt levels with a recent debt-to-cap ratio of 83%. That said, Northland Power seems to be generating sufficient cash flow to cover its dividends and debt obligations.

In 2018, after accounting for capital spending and paying out dividends, Northland Power had more than $548 million of free cash flow, while it had current liabilities of $503 million after subtracting cash and cash equivalents.

Investor takeaway

After the +9% drop in the stock price, Northland Power is a better value. It offers 11.6% upside (according to **Thomson Reuters**'**s** mean 12-month target) and a yield of 5.13% that comes in the form of a monthly dividend. In combination, we're looking at total returns potential of about 16.7% over the next 12 months.

Between Aurora Cannabis and Northland Power, the latter is clearly less speculative and a surer win. If Northland Power fell to the low $20s, it would be an even better buy.

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