Which 1 Renewable Energy Stock Should You Add to a Power Portfolio?

Description

Not all renewables stocks are equal; in fact, there is perhaps more inequality in this sector than in almost any other, with no two green energy stocks operating in the same way. While one may signal high growth but have poor health, another may be packing the dividends but have a dismal outlook. The three stocks below are classically disparate, with only one having the clear advantage.

Algonquin Power & Utilities (TSX:AQN)(NYSE:AQN)

With Algonquin Power & Utilities's 26% returns for the past year beating the North American integrated utilities industry average of 18.7%, making for an outperforming investment, portfolio owners have a lot to get excited about here. Combining low volatility (see a beta of 0.48 relative to the TSX index) with a solid track record (as seen in its one- and five-year earnings-growth rates of 644.5% and 20.3%), this is clearly a lower-risk option.

Algonquin Power & Utilities has managed to reduce its level of debt over the past five years, though it must be said that at 91.6%, it's still within the danger zone and not well covered by operating cash flow. In addition, Algonquin Power & Utilities insiders have only sold shares in the past three months, giving the peer-influenced investor something to think hard about.

While valuation could be better, with a price to earnings of 26.5 and a P/B of almost twice book, Algonquin Power & Utilities pays a decent dividend yield of 4.9% and is looking at a 16.7% growth in earnings, therefore making an attractive addition to a passive-income portfolio.

Boralex (TSX:BLX)

An underperforming stock, Boralex has a negative track record in terms of past-year earnings and a shoddy balance sheet typified by rising debt currently at +400% of net worth. Trading at twice its book value, it's about the same value for money as Algonquin Power & Utilities, though it pays a lower dividend yield of 3.64%.

Growth investors may want to take note of its 82.7% expected annual growth in earnings, which, aside from that yield, is probably the main thing that Boralex has going for it. It's certainly not quite as well-rounded a stock as Algonquin Power & Utilities, though for growth in the green energy space, it can't be beaten.

TransAlta Renewables (TSX:RNW)

Outperforming the Canadian renewable energy sector by 13.6% to 7.1%, TransAlta Renewables is a clear favourite in this race. Decent market fundamentals but a slightly negative outlook in terms of earnings make for a so-so investment if growth is your thing.

It's been a humdinger of a year, though, with earnings growth in the 400% region. Unlike Boralex, TransAlta Renewables has been reducing its debt, and a clean balance sheet is on display. This combines nicely with a sizable yield to make a possible front-runner for the one green energy stock to pack in an otherwise oil-heavy power portfolio.

The bottom line

With its 6.87% dividend yield and attractive valuation, TransAlta Renewables has to be the better stock here, at least for a passive-income investor. However, Algonquin Power & Utilities has the advantage of having some growth to go with those dividends. While Boralex does qualify in this area, its balance sheet and track record are a let-down for all but the avid growth investor.

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