How to Pick the Best Green Energy Stocks for a Dividend Portfolio

Description

As uncertainty continues to stalk the markets and talk turns ever increasingly to the risk of a market downturn, with some pundits zeroing in on the threat of a U.S.-led recession, it seems only natural that defensive names are doing the rounds at the moment.

But what if an investor doesn't want to buy into the "classic" carbon-heavy utilities? Below are three alternative energy stocks that could replace the usual parade of oil and gas tickers in a defensive portfolio, with everything from low market fundamentals to handsome dividends on the table.

Go for a positive outlook

A sizable market cap and 0.75 beta relative to the TSX index makes for a defensive pair of stats right off the bat for **Northland Power** (TSX:NPI), a clean, green energy producer with a focus on renewable sources and natural gas paying a handsome dividend yield of 4.73%.

Northland Power's 19.4% expected annual growth in earnings is the key here, signalling sturdy future growth in the coming years, which is exactly what a low-risk dividend portfolio needs. It's not beyond the realms of possibility, either, with one- and five-year past earnings-growth rates of 45.2% and 54.4%, respectively, the latter of which beats the Canadian renewables sector half-decadal average of 38.1%.

Select stocks that outperform the sector

If it's high performance you're after, **Algonquin Power & Utilities** (TSX:AQN)(NYSE:AQN) saw returns of 25.8% over the last 12 months that beat the renewables market average and a whopping earnings growth of over 600% during the same period. What this stock lacks in terms of a solid balance sheet, it certainly makes up for in growth.

Some recent inside selling can be seen here, though not in the same volume as with Northland Power stock. Some indication of overvaluation can be seen in a P/E of 26.9 and P/B of almost double the book price. However, a chunky dividend yield of 4.84% and 17.5% expected earnings growth adds up to a buy signal.

Zero in on sizable dividends

A beta of 1.11 makes **TransAlta Renewables** (TSX:RNW) the higher-volatility play in this space, which isn't exactly what you want in a defensive stock. Still, TransAlta Renewables may be worth the punt, with a stack of decent stats behind it. Case in point would be an outperforming 12.5% returns over the past year, backed up by earnings growth that topped 400% for the same period, and most notably a very tasty dividend yield.

At $13.58 a pop, TransAlta Renewables is cheap, selling at less than half its future cash flow value of $28.11 Indeed, with a P/E of 14.4 times earnings and P/B of 1.5 times book, this stock is not only close to the TSX in terms of volatility but also in valuation. It's seen less insider selling than the previous two tickers, while also offering a higher dividend yield of 6.92%.

The bottom line

A slightly negative earnings outlook lets TransAlta Renewables down, though in most other ways it's a superior stock in the green energy space, with a high dividend yield and clean balance sheet. Following the pointers above should help add the kind of defensive qualities present in traditional TSX index oil and gas stocks but without the volatility of that sector, while retaining the backbone a utilities investment.

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2. TSX:AQN (Algonquin Power & Utilities Corp.)
3. TSX:NPI (Northland Power Inc.)
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