



## 1 Top Attractively Valued Renewable Energy Stock Yielding Over 6%

### Description

One of the most important [secular trends](#) to emerge has been the push to renewable sources of energy, as governments globally work feverishly to reduce carbon emissions and the impact of climate change. That is acting as a powerful tailwind for renewable energy stocks, which are becoming a popular investment. This is because they possess the defensive characteristics of traditional electric utilities, including wide, almost impenetrable economic moats and virtually guaranteed earnings growth because of the inelastic demand for electricity.

Nonetheless, unlike traditional power companies, they aren't lumbered with the considerable expense associated with [transitioning](#) their facilities to cleaner sources of electricity, making them an appealing investment in the current operating environment.

A lesser-known renewable energy stock, which pays a regular dividend yielding well over 6%, is **Polaris Infrastructure** ([TSX:PIF](#)). It has been a rough ride for investors because its value has oscillated wildly over the last year to ultimately see Polaris down by 32% over that period. While Polaris is facing short-term headwinds, including an appreciable increase in geopolitical risk because of political ructions in Nicaragua where its core asset, the San Jacinto geothermal power plant, is located, that decline has created an opportunity for investors.

### Solid results

Polaris's San Jacinto plant combined with a range of hydro assets it acquired in Peru towards the end of 2018 gives it installed capacity of around 77 megawatts (MW). The renewable energy utility reported some robust first-quarter 2019 results. That included a healthy 19% year-over-year increase in average power generation at San Jacinto that gave revenue a notable nudge, seeing it rise by 26% for the quarter.

Adjusted EBITDA also soared, gaining 29% compared to a year earlier to be almost US\$16 million. Net income exploded, rising almost seven-fold to US\$3.4 million. Polaris finished the period with a healthy cash balance of US\$33 million and US\$169 million of net long-term debt, which is a manageable 2.8 times its trailing 12-month EBITDA.

The key drivers of that solid performance were primarily the further steam wells brought online at San Jacinto and, to a lesser extent, the addition of the five-MW Canchayllo run-of-river hydro project in Peru; it will boost Polaris's 2019 power generation and earnings.

Earnings will continue to grow over the next year because Polaris is expanding the capacity of San Jacinto and executing its buildout of the eight-MW El Carmen and 20-MW 8 de Agosto run-of-river hydro projects in Peru. Both plants are expected to be completed by the end of 2019 and have power-purchase agreements in place, with starting prices of US\$55.90 and US\$53.90, respectively, per megawatt hour (MWh) sold. El Carmen is forecast to produce at least 40,000 MWh annually. For 8 de Agosto, the plant's electricity output will be 130,000 MWh. On a combined basis, they have the potential to boost Polaris's revenue by at least US\$9 million annually.

Higher earnings will support the renewable energy utility's generous quarterly dividend payment, which is yielding a very juicy 6.5%. With a payout ratio of around 81%, the dividend appears sustainable.

## Pulling it together for investors

The ongoing political crisis in Nicaragua and U.S. sanctions on the government of Daniel Ortega have ratcheted up the level of risk associated with investing in Polaris, weighing heavily on its market value. The level of risk being priced in by the market appears overbaked, creating an attractive entry point to acquire a quality renewable energy stock. Some of that risk is mitigated by Polaris's 2018 acquisition of Union Energy Group and its Peruvian hydro assets, which will give its earnings a solid boost over the course of 2019 and into 2020, supporting the sustainability of that juicy 6.5% dividend yield as well as boosting its market value.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. TSX:PIF (Polaris Renewable Energy)

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