Buy This Renewable Energy Stock and Lock In a Dividend Yield of Over 7%

Description

Renewable energy stocks are growing in popularity, as the push to reduce carbon emissions and lessen the impact of climate change gains momentum. Many, despite the sometimes undependable qualities of their assets, are paying generous dividends with juicy yields in excess of 6%. When it is considered that they don't need to invest significant amounts of capital in transitioning their electricity producing assets to cleaner renewable sources of energy, it is easy to understand their growing appeal.

One relatively unknown renewable energy utility for Canadian investors is **Pattern Energy Group** (TSX:PEGI)(NASDAQ:PEGI). It was punished by the market after experiencing some financial headwinds that forced the utility to put its growth plans on hold and shore up its balance sheet.

Latest results mixed but credible

Pattern Energy appears to have resolved those issues, finishing the first quarter 2019 with cash of US$93 and net long-term debt of just over US$2 billion, which is a manageable 5.6 times trailing 12-month adjusted EBITDA.

The renewable energy company operates a portfolio of wind and solar assets across Canada, the U.S., and Japan. Its owned capacity is 2,861 MW and total operational capacity is 3,721 MW. For the first quarter, Pattern Energy reported 2,116 gigawatt hours (GWh) sold, which was a modest 1% decline year over year. However, disappointingly, actual electricity produced was only 92% of the forecast long-term average. That decline can be blamed on unfavourable wind conditions during the period, which is a key risk for wind, solar, and hydro assets.

Nonetheless, revenue from electricity sales swelled by an impressive 21%. Regardless of that solid sales number, Pattern Energy, on a diluted basis, reported a US$0.31-per-share loss for the quarter compared to a US$1.32-per-share profit for the equivalent period in 2018. That disquieting loss was caused by a combination of losses on assets sales, impairment charges, and increased costs associated with its portfolio of renewable energy projects under development.

Those additional charges, however, have cleared the decks, meaning that earnings should improve significantly over the remainder of 2019. It is worth noting that cash available for distribution (CAFD) soared by 23% compared to a year earlier to over US$53 million, placing Pattern Energy on track to meet its 2019 guidance where it expects annual CAFD of US$160-190 million.

The electric utility has an established acquisition and project pipeline comprised of 923 MW of assets under various stages of development. There is 78 MW of operational facilities, another 38 MW under construction, and the remaining capacity is comprised of late-stage development projects.

As those assets come online, they will further boost Pattern Energy's electricity output and earnings. The combination of inelastic demand for electricity, long-term power-purchase agreements and rising consumption in the utilities core markets virtually guarantees earnings growth.

Putting it together for investors

Pattern Energy has increased its dividend for the last six years straight, giving it a very appealing 7.7% yield. As the company's earnings expand, they will support further dividend hikes and lower the dividend payout ratio, which is a concerning 116% of net income. The dividend is also more sustainable than it initially appears because, based on the upper end of Pattern Energy's 2019 guidance, the payout ratio is 87% of CAFD, while at the lower end of that forecast it is 103%.

There is every likelihood based on the Pattern Energy's first-quarter results that it will achieve the upper end of its annual guidance, boding well for the sustainability of that generous dividend payment, and it could see the company recommence its plan to execute regular annual dividend hikes.

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