



This Little-Known Value Stock Is Poised for Explosive Growth

Description

Generally, investors group themselves into one of two camps; they identify either as a growth investor or a value investor.

But things don't have to be that rigid. You can have your cake and eat it too if you look hard enough. While they may not be plentiful, there are solid value stocks out there with great growth prospects. These companies tend to fly under the radar, silently performing well until they catch investor attention.

I'd like to profile one such stock today, **Polaris Infrastructure Inc.** ([TSX:PIF](#)). Let's take a closer look.

The skinny

It's easy to see why some investors might be nervous about Polaris. The company's main asset today is the San Jacinto Project, a 72-megawatt power plant running on geothermal energy located in Nicaragua. That region of the world isn't exactly known for political stability, and the nation has been recently rocked by violent protests against President Daniel Ortega.

Ortega, who ran the country from 1979 to 1985 after he helped overthrow former dictator Anastasio Somoza Debayle, isn't generally thought to be very business friendly. He nationalized a large portion of Nicaragua's largest industries during his first tenure in office and has passed anti-business legislation. He has also become the de-facto dictator of the nation, with opposition parties saying recent presidential elections were not run fairly.

While investors are right to be at least a little nervous about the political situation in Nicaragua, it shouldn't take anything away from San Jacinto, a fine asset. Geothermal power plants are expensive to build, but then offer plenty of power at cheap rates. Millions of the nation's citizens are benefiting from the asset, and the power is sold back to the government-run utility.

San Jacinto generates plenty of free cash flow, which the company has been using to pay investors a generous dividend, pay down debt, and look at expansion options. The company generated US\$0.74 per share in earnings in 2018, which translates into \$0.99 in Canadian dollars. That puts shares today

at just 12.5x trailing earnings.

This is a bargain for a stock with the kind of growth potential similar to Polaris has, which means that the company could get much bigger in a hurry.

Growth plans

Earlier in 2019, Polaris purchased a number of power projects in Peru, assets that should add nicely to the bottom line once they're all up and running.

In total, these Peru hydroelectric plants could add 242 megawatts to Polaris's total production, which would be a massive increase from the 72 megawatts currently generated by San Jacinto. But only five megawatts are operational today, with an additional 28 under construction. The remaining projects have been approved, but construction hasn't started yet.

Polaris also has plans to expand inside Nicaragua. The Casita project has given the company exclusive rights to expand in a certain area of the nation, and the company is currently working with both the government of Nicaragua and the World Bank to take the steps necessary to move forward on the project.

Paid to wait

Power plants take a long time to get approved and then years to be constructed. This is not an investment for the impatient.

While you wait for these Peru assets to come online, Polaris's stock pays a hefty dividend, a payout easily covered by cash flow. The current yield is 6.4%, and it's very possible that the dividend marches higher once more Peru assets start generating cash flows.

The bottom line

Polaris Infrastructure isn't a large stock, and its primary asset is located in a country known for nationalizing entire industries. But these are manageable risks, and the company is doing a nice job expanding outside the nation. If it can deliver on that growth plan, look for shares to easily double or triple over the next five years.

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