Are Renewable Energy Stocks Really a Safer Play Than Oil?

Description

Newcomers to energy investment may not see the distinction between oil companies and renewables, but the fact is that they are two almost entirely different types of investment. While many oil stocks do pay dividends, investment in this space is often made for capital gains; meanwhile, electricity suppliers and green energy stocks represent offshoots of defensive income investment.

Today, we'll take a look at some of the market performance data for several stocks that fall either side of the fence and see why renewable energy stocks in particular represent a more stable form of investment in the TSX than oil-weighted companies.

Northland Power (TSX:NPI)

Ending last week's energy tug-of-war with a five-day win of 0.68%, Northland Power shows all the signs of being a suitable replacement for that oil-heavy dividend stud you've been thinking of cashing in. A moderate buy in the current financial climate, Northland Power has the things a dividend stock should: good value for money, low volatility, a sizable yield, and growth.

Northland Power's P/E of 15 times earnings is about where it should be, while a five-year beta of 0.7 indicates a suitably insulated share price; meanwhile, a dividend yield of 4.78%, backed up with growth of 19.3% over the next one to three years, rounds out the reasons to add this stock to a passive-income portfolio.

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

Finishing last week up 3.23%, Algonquin Power & Utilities is another clean energy stock with low volatility, as illustrated by its low five-year beta of 0.48 relative to the market. Currently getting some consideration as a safe-haven investment, this is one of the top green energy stocks on the TSX. A tasty dividend yield of 3.16% combined with an estimated earnings-growth rate of 20.4% over the next three years are reason enough to buy and hold in a passive-income portfolio.

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ)

Slammed with five-day losses of 2.77% on the threat of new trade tensions between Mexico and the U.S., only to rise sharply on the suggestion that any new tariffs were to be delayed, Canadian Natural Resources showed investors just how vulnerable its share price can be to sudden changes in the market. Indeed, with a five-year beta of 1.83, it's one of the more volatile stocks in the Canadian oil and gas space.

Despite negative one-year returns, an average analyst rating describes this oil-weighted stock as a moderate buy. Indeed, if it weren't for its risky exposure to oil prices, its good value (indicated by a P/E 14.5 times earnings and P/B of 1.3 times book) and decent dividend yield of 3.93% — combined with an estimated earnings-growth rate of 12.2% by the end of this fiscal year — would add up to a solid investment.

The bottom line

Northland Power's P/B of 5.3 times book is suggestive of overvaluation, while its one-year returns of 3.2% underperformed the Canadian renewables average of 6.9%. Algonquin Power & Utilities is the cheaper stock, however, and its strong performance and defensive stats suggest it has what it takes to go up against even big-league oil stocks such as Canadian Natural Resources.

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