Passive Income + Capital Gains: 1 Coiled-Spring Dividend Stock to Buy Right Now

Description

Northland Power (TSX:NPI) is a renewable power producer in Canada and around the world.

As a top ESG (environmental, social, and governance) bet with a massive 4.8% dividend yield and a pipeline full of growth projects, you'd think the stock would be a hot topic on various shows in the mainstream financial media. You'd be wrong. Northland is a stock that few Canadian investors knows of because of its relatively small $4.5 billion market cap and the fact that it has one of the most uneventful charts on the entire TSX index.

Having a look at the longer-term chart, you'll see the stock has been in a channel of consolidation (a technical term meaning that stock has essentially flatlined) for around three years straight. If you are well-versed in technical analysis, then such a prolonged period of consolidation is a big plus for those looking ahead. Stocks that tend to flatline for extended periods of time tend to explode higher when the time comes. In a way, when the rally finally comes, the magnitude of the upward moves tends to make up for the lost time over the years that shares were consolidating.

So, technically, the stock could be seen as a coiled spring that may be ready to pop. When the stock pops is anyone's guess, however. And to get a better gauge of the time frame, we need to have a look at the potential catalysts on the horizon.

Although no near-term catalysts are apparent, management delivered a rock-solid first quarter, with management now reaffirming its 2019 guidance, with $920-1,010 million in adjusted EBITDA expected alongside $1.65-1.95 in AFFO per share.

With another offshore wind project close to being ready to come online, Northland could be gearing up for another dividend boost, as it continues to grow its AFFO through ambitious renewable growth projects. Although the stock is well positioned to reward investors with outsized gains over time, I don't think the coiled spring is ready to pop any time soon.

As such, I'd only bet on Northland if you've got a long-term time horizon because the consolidation phase could drag on for many more years. On the plus side, I see Northland as one of the most affordable renewable energy dividend plays for investors who don't want to risk overpaying for a stock as the markets make a move back towards all-time highs.

Northland trades at 14.7 times next year's expected earnings and 4.2 times cash flow. Given the perfect blend of growth and dividend growth you're getting, I'd say the price of admission ought to be way higher. And as management continues pulling all the right growth levers, I believe the name will eventually evolve to become a staple for income-oriented investors.

Once investors rotate from growth to value, I suspect Northland stock could be ready to pop. Of course, nobody knows when such a rotation will occur, if at all over the medium term. For now, collect the dividend payments and wait patiently for the capital gains to make a comeback.

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