



This Renewable Energy Utility Is Poised for Explosive Growth

Description

Demand for [renewable sources](#) of energy continues to expand at a rapid clip. A combination of falling costs and growing momentum in the battle against climate change increased the attractiveness of electricity generated from clean renewable sources.

One company that stands to benefit from this secular trend and appears attractively valued is **Polaris Infrastructure** ([TSX:PIF](#)).

Solid growth prospects

The stock has pulled back sharply in recent weeks, creating an opportunity for investors seeking exposure to the secular trend to renewable energy in rapidly growing Latin America.

Polaris owns the 72-megawatt (MW) San Jacinto geothermal project in Northwest Nicaragua. It is Polaris's exposure to Nicaragua and dependence upon San Jacinto for most of its earnings which saw the stock roughly handled by the market.

In early 2018, Nicaragua slipped into a state of economic and political crisis as the government attempted to implement a series of economic reforms, which impacted pensions.

This upheaval has heavily impacted economic activity, causing the economy to contract leading to the International Monetary Fund (IMF) to estimate that Nicaragua's gross domestic product (GDP) will shrink by 5% for 2019 and 0.2% in 2020.

That is expected to have a negative effect on Polaris's earnings, as there is a direct correlation between GDP and demand for electricity.

Nonetheless, the company did report some credible second-quarter 2019 results despite electricity output from San Jacinto declining by 7% year over year to 129 gigawatt hours (GWh).

That decrease was caused by a maintenance shutdown rather than an operational failure and had a

minimal impact on earnings. Second quarter adjusted EBITDA declined by 4% year over year to US\$14.5 million, and Polaris reported a net loss of US\$7 million compared to a profit of almost US\$4 million a year earlier.

Notably, Polaris's free cash flow grew strongly, with the company reporting a net cash increase of US\$17.7 million against a US\$2.7 million decrease a year earlier.

As a result, the company finished the second quarter with US\$55.5 million in cash, bolstering its financial flexibility and ability to weather the difficulties currently being experienced in Nicaragua.

Polaris also completed the transformative acquisition of Union Energy Group in October 2018, which added that company's Peruvian hydro assets to its portfolio.

This was a particularly important deal, as it diversifies Polaris's operations away from Nicaragua, giving it significant growth potential in one of South America's fastest-growing economies. The IMF anticipates that Peru's GDP will expand by 3.9% in 2019 and 4% during 2020.

On closing, the deal added the operational 5MW Canchayllo hydro plant to Polaris's assets. It also included the Generación Andina assets composed of the 8 de Agosto and El Carmen hydro projects under construction, adding 28MW to Polaris's portfolio upon completion.

By the end of the second quarter 2019, both projects were 84% complete and are expected to be operational by the end of the year. Polaris expects that on commencing commercial operations, the Generación Andina facility will generate US\$7 million to US\$9 million in EBITDA, significantly reducing its dependence on San Jacinto.

Foolish takeaway

Once the Generación Andina project comes online, it will give Polaris's earnings a [solid boost](#) and thus give its stock a lift. While shareholders wait for that to occur, they will be rewarded by Polaris's sustainable and generous dividend yielding a very juicy 5.9%.

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