This Renewable Power Utility Yielding 6% Is Poised to Soar

Description

Are you seeking to build a recurring passive income stream while generating reliable capital returns?

Look no further than renewable energy utility **Polaris Infrastructure** (TSX:PIF), which is yielding a very juicy 6% and is poised to soar after completing a transformative acquisition.

Higher geopolitical risk

Polaris owns and operates the San Jacinto geothermal project in Nicaragua. The company's exposure to that deeply troubled Latin American nation and key dependency on the San Jacinto asset was responsible for the extreme volatility experienced by the stock over the last year.

In early 2018, Nicaragua was rocked by protests and anti-government discord after the administration of President Daniel Ortega sought to reform pensions and welfare benefits in the wake of growing fiscal pressures.

This triggered a political crisis that saw the U.S. impose economic sanctions on the Latin American nation in an attempt to foment regime change. This in turn caused Nicaragua's economy to collapse and gross domestic product (GDP) to contract sharply, with estimates that it will decrease by 5% in 2019 and 0.2% in 2020.

This sparked considerable concern that Polaris' earnings would be sharply impacted because there is a direct correlation between electricity consumption and economic growth. There were also unsubstantiated fears that San Jacinto could be nationalized by Ortega's leftist dictatorship.

Many of these fears and the marked impact they have had on Polaris' share price, which sees it down by 21% over the last two years, appear overbaked.

It's unlikely that the Ortega regime would possess the experience to correctly operate the plant, while the nation's dire economic state means that the current administration needs to do all it can to attract foreign investment and kick start growth. There's no greater deterrent for foreign companies than the nationalization of foreign owned assets.

Solid results

San Jacinto, which has installed capacity of 77MW, continues to perform strongly driving ever better results for Polaris. For the first half of 2019, power generation shot up by 5% year over year to 61.6MW, which was higher than management anticipated due to a combination of lower than expected downtime because of maintenance and new steam wells brought online since mid 2018.

The acquisition of Union Energy toward the end of 2018 added the operational 5MW Canchayllo hydro plant in Peru to Polaris's portfolio. For the first half of 2019, it produced 3.67MW, indicating that it's on target to meet the desired operating results.

That increase in electricity production gave Polaris' earnings a healthy lift. First-half revenue soared 11%**,** although diluted earnings per share came to a US$0.21 loss compared to US$0.28 profit for the equivalent period in 2018.

That loss can be attributed to a US$11.6 million impairment charge for the second quarter 2019 against the Casita project in Northwest Nicaragua. Management took the decision to write down the value of Casita deciding that the ability to locate appropriate funding at this time was unlikely because of the ongoing economic and political crisis in Nicaragua.

Polaris did report a US$17.7 million increase in cash flow for the first half compared to a US$2.7 million decrease a year earlier, thereby underscoring just how much cash the company can generate even with its prospects weighed down by the crisis in Nicaragua.

The purchase of Union Energy has allowed Polaris to reduce its dependency upon Nicaragua by providing it with a portfolio of run of river hydro assets in Peru. These are the operational Canchayllo hydro plant, the El Carmen and 8 de Agosto projects, which combined have 20MW of capacity, and the Karpa development stage project.

El Carmen and 8 de Agosto are expected to be completed by the end of the fourth quarter 2019 and combined will generate up to US$10 million in revenue for Polaris on beginning full commercial operations.

That will certainly give earnings and cash flow a healthy bump, reducing Polaris' dependence on Nicaragua, as Peru is a far more stable lower risk jurisdiction in which to operate.

Foolish takeaway

Once the El Carmen and 8 de Agosto facilities reach full commercial operations, Polaris' stock will likely soar. While investors wait for that to occur, they will be rewarded by its sustainable dividend yielding a very juicy 6%.

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