Northland Power Inc. (TSX:NPI): TFSA Investors Can Retire Early With This Clean Energy Powerhouse

Description

The smartest investors understand long-term global trends — and know how to play those trends to juice their portfolio returns.

This was the central argument in the first article of my three-article series on **Northland Power** (TSX:NPI), where I discussed loading up on the company's shares as it rides the clean energy wave in high return jurisdictions like Latin America with its acquisition of the regulated utility EBSA in Colombia.

In this second article of the Northland Power series, I will delve into the macro factors that make Northland Power an ideal stock for investors who use long-term trends to their advantage.

Why Latin America?

When investors think of Latin America, their imagination turns to the disaster that is the Argentineans' economy or the broken hopes of Brazil, despite hosting the Olympics and the soccer World Cup just a few years ago.

On the surface, Northland Power's move into Colombia may not make strategic sense to the casual investor. Sure, the company is in Mexico and has gained some experience in Latin America, but Colombia is a new jurisdiction for them and creates greater operating risk.

Why not just continue to buy and build in Mexico or frankly in much less risky jurisdictions like Europe?

Well, the answer is straightforward. Colombia is a part of the Pacific Alliance Group of Companies that presents an extremely attractive long-term growth opportunity at growth rates significantly higher than North America or Europe.

I wrote a few weeks ago in detail about how **Scotiabank** is another Canadian company taking full advantage of the Pacific Alliance tailwinds.

Colombia continues to build its economic foundation on strong partnerships with Chile, Peru, and Mexico as part of the Pacific Alliance. In addition, it has signed 10 free-trade agreements with 42 countries that compose 38% of global GDP.

Simply put, Colombia is getting a lot of things right on its growth agenda and companies that plant their flag there now are doing it at “ground floor” level pricing.

Shareholder-friendly financials

In terms of financial metrics, earnings growth may be a prince but cash flow growth is the undisputed king. Even within cash flow metrics, there are grades of quality, just like the beef at your local butcher shop. Operating cash flow growth is high-end beef, but free cash flow growth is grass-fed organic filet mignon.

Free cash flow (FCF) growth is the best metric to really determine whether a company is successful because it’s defined as the cash flow remaining after paying all expenses. Essentially, this is the cash flow available to invest in growth initiatives and fund dividend payments.

Many companies don’t go out of their way to talk about FCF because it isn’t required by disclosure rules. More important, FCF metrics for companies that may look financial healthy on the surface can be ugly when you take a peek under the hood.

Northland Power is one of those rare companies that goes out of its way to measure, disclose and discuss FCF in their investor communication documents. That level of transparency is worthy of applause and enhances shareholder trust, which is very important.

Northland Power’s FCF has been growing steadily, increasing 70% between 2014 and 2018. Furthermore, FCF per share has grown from $1.46 per share in 2017 to an estimated 2019 top end guidance of $1.95 per share at writing.

The company’s annual dividend of $1.20 per share is more than covered with the free cash flow, a superb signal for smart investors, indicating that the company has room to grow dividends and fund its robust future development pipeline.

The final verdict

Northland Power has traded sideways for the last few weeks as investors digest the news around the Colombian acquisition and assess the company’s risk level. Less savvy investors see heightened risks in the company’s operating model as moves into more far-flung locales.

However, smart investors will remember that these risks are calculated, and the Colombian acquisition gives Northland Power the opportunity to develop clean energy infrastructure in a very stable member of the Pacific Alliance countries.

Buy Northland Power now and reap the rewards as the company develops further into Colombia and supercharges its cash flow and dividend growth.

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