Smart Investors Can Retire Happy With This Powerhouse Clean Energy Stock

Description

As I mentioned in the first and second articles of this three-article mini-series on **Northland Power** (TSX:NPI), smart investors understand long-term global trends and then figure out how to play those trends to juice their portfolio returns.

In the first article of this mini-series, I discussed Northland's entry into Colombia and why that was a strategic masterstroke. In the second installment of this series, I shed light on the broader reasons why Northland is primed for long-term cash flow growth.

In this third and final article of this mini-series, I look deeper into the macro factors that make Northland Power an ideal stock for investors who use long-term trends to their advantage. So without further ado, let's get right to it.

Pay attention to "greenfield" development

When assessing the merits of a company in the energy infrastructure space, investors should look at a few different things. First, investors should make note of whether the company is good at buying existing infrastructure and operating it or good at building new infrastructure from scratch, otherwise known as *greenfield developments* in industry-speak.

It's certainly good to be a competent operator of energy infrastructure assets, but it's even better to be a good operator and a good greenfield developer.

If a company is lucky, operating an asset can lead to mid to high single-digit returns. However, if a company can build new assets and then operate them efficiently, that can be a double-digit return proposition.

The extra return that energy infrastructure developers can get from a brand-new build is also correlated to the extra level of risk they take on. Similar to buying a condo, making the purchase when thebuilding is already completed is a lot less risky than purchasing the promise of a condo a few yearsdown the road.

Another really powerful reason to pay attention to greenfield developments is that governments worldwide are extremely supportive of clean energy initiatives that help reduce their carbon footprint.

It's therefore not a surprise that Northland Power has built up a very cushy $1.2 Billion tax pool that can be used to reduce income taxes, directly translating into higher EBITDA.

Shareholder-friendly management team

In addition, because it has a healthy level of free cash flow (FCF) generation, Northland Power is not as reliant on debt or equity financing as its competitors to fund its projects.

Even when it does need to tap into capital markets for funding, it does so in a very balanced and shareholder-friendly manner, which means that it typically issues debt relative to equity to fund acquisitions.

The $1.05 billion purchase price for their latest Colombian acquisition of Empresa de Energia de Boyaca ("EBSA") will be paid with a combination of 70% debt and cash-on-hand and 30% equity.

For common equity shareholders, the relative modest equity financing is very good news, as it limits their per-share earnings dilution to a very manageable level.

The real proof is in the "total shareholder return" pudding, however. Northland Power has not disappointed on that front, with a 17% return for the last 10 years, comfortably ahead of the **S&P/TSX Capped Utilities Index.**

A significant driver of these outsized returns has been the successful completion of greenfield development projects, which have the highest returns in this industry and can generate significant alpha for shareholders if management executes them well.

The final verdict

Northland Power is currently trading at a price to cash flow (P/CF) of about 8, which is at the low end of the industry. This tells me that the stock is cheap at this present time, given its significant international projects that will start throwing off significant cash flow very shortly.

What's even better is that the company has plans to use big data insights to optimize asset performance and maintenance practices, which is industry parlance for eliminating unnecessary expenses and sweating out a few extra dollars in EBITDA from operations.

This optimization skill can add a percentage or two to total shareholder returns, which is a helpful tailwind in tough business cycles.

Smart investors will realize that its significant greenfield development experience and pipeline should lead to double-digit project returns that will translate into greater cash flow in the future.

Buy Northland Power to build a phenomenal dividend stream backed by highly profitable long-term energy infrastructure projects to ensure a financially secure retirement.

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