Passive-Income Investors: This Renewable Energy Dividend Stock Just Hit a Massive Buy Signal!

Description

It literally pays dividends to be a value-conscious income investor.

By paying too large a premium for dividend stocks, you could be in for lower-than-average total returns, even if the dividend yield is larger than usual.

Typically, a larger yield means either a lower degree of sustainability or more muted growth expectations moving forward. If you're able to spot mispriced plays, though, it is possible to get the best of both worlds in a large upfront dividend yield and the potential for substantial capital gains.

Nobody wants to risk their shirt catching a falling knife with severely battered dividend stocks whose payouts may be in jeopardy; capital losses could have the potential to exceed returns you'll get from the higher-than-average dividend. Chasing yield can be a risky endeavour for beginner investors that have an inclination to overestimate their tolerance for risk.

That's why it's worthwhile to have a look at some dividend stocks that have fallen into a lengthy consolidation channel. Technically speaking, such "flatlined" stocks have a tendency to break out after a prolonged period of inactivity. The larger the consolidation phase is, the bigger the breakout. And, best of all, investors won't need to worry as much about accelerating capital losses and whether the dividend will get slashed.

Consider **Northland Power** (TSX:NPI), a renewable energy company with one of the cheaper stocks in its industry. Shares of Northland have gone virtually nowhere since summer 2016, but more recently, shares have begun to break out of the long-term consolidation channel — a bullish sign that the stock could be ready to make a huge move higher to make up for the last few years of lost time.

At the time of writing, Northland stock is at a new all-time high, and with shares still relatively undervalued, I suspect the name could have ample upside as we head into year-end.

The stock sports a bountiful 4.6% dividend yield and trades at 13.3 times next year's expected earnings and just 9.4 times EV/EBITDA. Free cash flows have been trending upward of late, and given

Northland is overdue for a dividend hike, investors may be able to benefit from a generous double-digit percentage dividend increase, as the stock looks to move higher.

To make the Northland story even sexier, it's an ESG-friendly play as a developer and operator of various renewable power assets across Canada (and now the world). So, in short, you're getting a cheap income stock that looks fundamentally and technically sound that'll benefit from long-lived secular tailwinds.

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