Passive-Income Seekers: This Stock Yielding 6.5% Is in 1 of the Hottest Growth Industries

Description

Renewable energy has been an increasing topic of discussion as of late. As many Canadian's voiced their opinions ahead of the federal election, one of the main issues on the minds of voters was the increased need to do something about climate change.

Prime Minister Justin Trudeau has already said that the funds the government generates from its ownership of the Trans Mountain Pipeline will be used to fund green energy initiatives.

In addition, a number of companies have been taking the lead and signing their own contracts with renewable energy providers.

These are all positive developments in the sector, but to see what's really going on, we'll have to look at some of the top companies' individual earnings.

TransAlta Renewables (TSX:RNW) reported earnings this past week, and because it's one of the largest renewable power generators in Canada, it can give us a general idea into how the sector has been performing.

At the end of the third quarter, it had exposure to more than 2,400 megawatts of generating capacity, through its ownership of 13 hydro facilities, 19 wind farms, and one gas plant, in addition to the economic interests it holds in many projects from around the world.

It's worth noting that a lot of the interest it holds has exposure to the asset's cash flows as opposed to an ownership stake in the projects, which is more risk-free way to be invested.

Operationally, TransAlta Renewables managed to generate adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) in the third quarter of $86 million, which was $2 million less than the same quarter last year. The company attributed this to lower-than-expected EBITDA from some of its wind assets.

For the first nine months of the year, its EBITDA was $313 million — an increase of $17 million from the year prior.

Passive-income seekers will be happy to note that its cash available for distribution (CAFD) grew by $2 million in the quarter and $6 million so far this year, primarily as a result of the companies increased adjusted funds from operations.

In terms of per share CAFD in the first nine months, it generated $0.82 per share and paid out roughly $0.71 of that in dividends.

It's the go-to renewable investment for passive-income seekers, given that its yield, which is sustainable, is one of the highest in the industry at roughly 6.5%.

Overall, the quarter was satisfactory, and management reaffirmed its guidance for the year, expecting to generate EBITDA between $425 and $455 million. In terms of CAFD, it expects to generate close to $300 million.

Going forward, it has more projects in development and has the financial flexibility to make strategic acquisitions if the right opportunities present themselves.

It's a high-quality operator and one of the best renewable companies in Canada, well worthy of an investment.

The thing with renewables, especially wind and solar generation, is that you can't control the amount of wind or sunlight you will get in a given year or quarter, therefore it leaves the company and industry as a whole vulnerable to volatility in its earnings and power generation numbers from quarter to quarter.

Despite that, TransAlta renewables experienced some of those issues this quarter, and it still reported strong numbers and CAFD that exceed the dividend. It continues to be the best stock for those investors looking to get exposure to the renewable sector and are looking for solid dividend growth.

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