



This Little-Known Renewable Energy Stock Yielding Over 6% Is Poised to Soar

Description

The secular trend to clean energy continues to [gain momentum](#) with renewable energy now comprising around a third of global power capacity. A push by many governments to reduce pollution and carbon emissions as part of the battle against climate change will act as a powerful tailwind for renewable energy utilities. One that is often overlooked by investors is **Polaris Infrastructure** ([TSX:PIF](#)). It's well positioned to benefit from this trend and deliver considerable value for shareholders.

The company owns and operates the San Jacinto thermal energy project in the Latin American nation of Nicaragua. Despite a sharp sell-off over the last month triggered by rising geopolitical risk in Nicaragua and Latin America in general, Polaris is still up by an impressive 21% for the year to date. I have [been bullish](#) on the outlook for the renewable energy utility since October 2018. There are signs of further growth ahead for what is one of the most exciting renewable energy plays available.

Rising geopolitical risk

The market has punished Polaris because of further U.S. sanctions being established against the regime of Nicaraguan president Daniel Ortega and the ongoing political crisis in the Latin American nation. The crisis, which erupted early last year, was sparked by pension and social security reforms. The protests eventually led to a full-blown economic and political crisis that has caused foreign investment to decline significantly and the economy to contract. It's estimated that 2019 gross domestic product will decline by 5% year over year.

For 2020, the IMF anticipates that Nicaragua's economy will contract by almost 1% and return to growth in 2021. Political crises have emerged across Latin America in recent months including in Ecuador, Bolivia, and Chile, fueling further uncertainty over a region that has earned a reputation for instability.

While this explains why the market has marked down Polaris stock, it should deter investors from boosting their exposure to the country and the region. Polaris reported some credible third-quarter 2019 results, despite the ructions in Nicaragua, including diluted earnings of US\$0.16 per share compared to a US\$0.41 loss for the previous quarter.

Nonetheless, earnings per diluted share for the period were 36% lower year over year, and that can be attributed to lower electricity production, which fell by 8% to 60.2 megawatts (MW) due to natural decline rates as well as wells being taken offline. Polaris is in the process of constructing a drilling plan, aimed at developing more wells so that electricity production will increase, which it anticipates will be completed by the end of 2019.

Transformative acquisition

Toward the end of 2018, the renewable energy utility acquired Union Energy. This deal diversified its operations into Peru, adding the operational five MW Canchayllo hydro plant as well the Generaciòn Andina project comprised of the eight MW El Carmen and 20 MW 8 de Agosto hydro assets. That not only reduces Polaris's dependence on Nicaragua but gives it exposure to one of the fastest-growing economies in Latin America, with the IMF expecting Peru's GDP to expand by 2.6% in 2019 and 3.6% in 2020.

The El Carmen and 8 de Agosto plants were completed during the third quarter 2019, with El Carmen declaring commercial operations earlier this month and 8 de Agosto expected to do so before the end of 2019. Combined, those two facilities are expected to add US\$7 million to US\$9 million to Polaris's annual EBITDA.

The Canchayllo plant is on track to meet operational targets, having generated 3.9 MW of electricity and US\$1.1 million of revenue for the first nine months of 2019.

Now that El Carmen and 8 de Agosto are operational, Polaris's earnings will receive a healthy boost.

Foolish takeaway

Polaris stock will soar once internal dissent in Latin America declines and it successfully reports the commencement of commercial operation at Generaciòn Andina. The company's earnings will continue to grow at a steady clip, which will boost its stock. While investors wait for that to occur, they will be rewarded by Polaris's sustainable dividend yielding a very juicy 6.5%.

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Date

2025/08/29

Date Created

2019/11/19

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