



This Little-Known Renewable Energy Utility Gained a Stunning 23% in 2019

Description

Many renewable energy stocks experienced a solid year during 2019 with many making solid gains and outperforming the broader TSX. The second-largest renewable energy exchange-traded fund (ETF), **iShares Global Clean Energy ETF**, gained a very respectable 36.5% during 2019. Industry-leading globally diversified [clean energy utility](#) **Brookfield Renewable Partners** was one of the best performers in the sector, rallying by a stunning 66%, excluding dividends, which was more than three times greater than the **S&P/TSX Composite Index's** 19%.

One renewable energy utility that many investors overlook is micro-cap **Polaris Infrastructure** ([TSX:PIF](#)). It surprised many by gaining a healthy 23% during 2019, despite higher geopolitical and economic risk in Nicaragua. While this is only a modest 4% greater than the broader Canadian bourse, there are signs of [further gains](#) ahead in 2020.

Transformative acquisition

In late 2018, Polaris completed the transformative acquisition of Union Energy, which added one functional run of river five-megawatt (MW) hydro facility to its portfolio and three additional projects with a combined capacity of 48 MW. This reduced its dependence on Nicaragua, which, since early 2018, has been rocked by civil unrest in opposition to pension and other economic reforms.

That turmoil, along with U.S. sanctions against Nicaragua and the government of President Ortega, saw the Latin American country's 2019 gross domestic product contract by 5% compared to a year earlier. The International Monetary Fund (IMF) predicted that Nicaragua's economy will contract by 0.5% during 2020 before returning to growth in 2022. This sparked considerable concern that Polaris would be able to continue delivering value for shareholders because of the direct correlation between economic growth and greater consumption of electricity.

For these reasons, the Union Energy deal was an extremely positive development for Polaris. Not only did it reduce the renewable electric utility's dependence on Nicaragua, but it gives Polaris a presence in one of Latin America's fastest-growing economies, Peru, which is expected to grow by 3.6% in 2020 and a notable 4% in 2021.

In an important development, Polaris recently announced that construction of the 20-MW 8 de Agosto hydro facility had been completed, and the plant had commenced commercial operations at the end of 2019. This, along with the Carmen facility, which was completed at the end of November 2019, added 28 MW to Polaris's installed capacity. Those facilities are expected to add US\$7 million to US\$9 million of EBITDA to Polaris's financial results and are estimated to have added US\$65 million to US\$80 million to the utility's assets.

Polaris anticipates that power generation at the San Jacinto plant in Nicaragua will grow, because it completed a series of new wells during the first half of 2018, which are still being stabilized, and by the end of the third quarter 2019, it had not reached full capacity. The company is also in the process of evaluating the sustainability of the San Jacinto facility and planning various ways to boost electricity production at the plant. San Jacinto's growing electricity output will further boost Polaris's earnings.

Foolish takeaway

There is plenty of upside ahead for Polaris, particularly now that it has successfully commenced commercial operations at its Carmen and 8 de Agosto facilities in Peru. They have added 28 MW of installed capacity, which will give Polaris's earnings a solid boost, lifting its market value. Patient investors will be rewarded by the utility's sustainable dividend yielding a juicy 5.5%.

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