



Why Did This Renewable Energy Utility Gain Almost 23% in 1 Month?

Description

Little-known renewable electricity utility **Polaris Infrastructure** ([TSX:PIF](#)) has [shot up by](#) a whopping 22.5% over the last month, surprising some market pundits who have taken a bearish view on its prospects since Nicaragua fell into crisis in early 2018.

Polaris owns the San Jacinto geothermal powerplant in the central American nation, which has been rocked by civil strife after the regime of President Daniel Ortega attempted to implement controversial social security reforms.

When that was combined with U.S. sanctions, economic growth in what was one of the fastest-growing economies in Latin America stalled to see the IMF predict that Nicaragua's GDP contracted by a whopping 5% in 2019. This saw the market take a very bleak view of Polaris's prospects because of its dependence on the San Jacinto plant to generate earnings in an environment where the demand for electricity was expected to fall. There were even fears that Ortega's government would consider nationalizing foreign assets in order to stave off the economic crisis engulfing Nicaragua.

Positive outlook

While those events did not occur, and the impact on Polaris was [significantly less](#) than expected, the market still took a very poor view of the utility's prospects. Despite rising geopolitical risk in Nicaragua, Polaris took the opportunity to acquire a portfolio of operational and construction stage hydro-plants in Peru.

It was then announced that the Generacion Andina development was complete, which was the catalyst for the massive surge in Polaris's market value, seeing it up by a whopping 49% over the last year, beating the **S&P/TSX Composite's** 11%.

Generacion Andina consists of the 8 de Agosto and El Carmen run-of-river hydro plants in Peru. Both have received extensions to their power-purchase agreements (PPAs), are connected to Peru's power grid, and are delivering electricity. Combined, 8 de Agosto and El Carmen have 28 megawatts (MW) of installed capacity and are expected to boost Polaris's EBITDA by US\$7 million to US\$9 million.

Importantly, those plants, along with the full functional Canchallyo hydro-facility in Peru, which is expected to generate EBITDA of around US\$900,000, have significantly reduced Polaris's dependence on troubled and strife-torn Nicaragua.

That not only diversifies Polaris's earnings but further improves the sustainability of its dividend. Polaris pays a quarterly dividend currently yielding a juicy 4.6%, and there is speculation that once its Peruvian business performs as expected that it could even hike the dividend.

Operational improvements

The renewable energy utility is also in the process of improving operations at its San Jacinto facility in Nicaragua, which should see electricity generation expand, because of increased steam generation and well-enhancing projects. As those plans are implemented, and San Jacinto's power generation increases, Polaris's earnings will grow.

The IMF has also forecast that Nicaragua's deeply troubled economy will return to growth in 2022, which should trigger an uptick in the demand for electricity.

Both factors will act as positive catalysts for Polaris stock, giving it a further boost.

Foolish takeaway

Polaris is a very attractive play on the growing demand for renewable energy in Latin America. While higher levels of regional geopolitical risk will impact its outlook and market sentiment toward the stock from time to time, Polaris is well positioned to deliver considerable value over the long term, making now the time to buy.

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