Profit From the Market Crash: Buy This Renewable Energy Utility Today

Description

Coronavirus fears, weaker growth in China and the growing likelihood a global recession have triggered a market crash. The **Dow Jones Industrial** lost 18% over the last month, while the **S&P/TSX Composite** fell 17%. This sees several high-quality dividend stocks attractively valued. One which stands out is **Polaris Infrastructure** (TSX:PIF), which has fallen by 12% since early last month, making now the time to buy.

Defensive attributes

Polaris is a renewable energy utility operating in Nicaragua and Peru. Like traditional electric utilities, it possesses considerable defensive characteristics. These include the inelastic demand for electricity and wide economic moat that protects their earnings during economic downturns.

Polaris's earnings are further protected because they are contractually locked-in through power purchase agreements, many of which are linked to inflation.

These characteristics explain why Polaris has not been as harshly handled by the market compared to many other stocks. The combination of defensive attributes and low volatility makes it an ideal stock to hold during market crashes and economic crises.

Robust outlook

Aside from these traits making Polaris a solid stock to weather an economic slump, it's also a top company to own because of its strong growth prospects. In late 2018, Polaris acquired Union Energy, which owned a portfolio of development stage hydro-electric projects in Peru. This was a transformative deal because it substantially reduced its dependence on an increasingly unstable Nicaragua.

The deal added the operational 5-megawatt (MW) Canchayllo hydro-plant and the Generación Andina hydro-project comprised of the 8MW El Carmen and 20MW 8 de Agosto plants to its portfolio.

Construction of the El Carmen and 8 de Agosto plants was completed in late 2019, adding 28MW to Polaris's installed capacity and an estimated US$7 million to US$9 million in EBITDA to its earnings.

This latest development significantly reduces Polaris's dependence on its San Jacinto geothermal plant in Nicaragua to generate earnings, decreasing the degree of risk surrounding its operations. It will also give Polaris's 2020 earnings a healthy bump because both plants are connected to the Peruvian electric grid and have power purchase agreements (PPAs) in place.

For 2019, Polaris announced consolidated electricity production of 570,934 megawatt hours (MWh) which was 4% greater than a year earlier. This gave earnings a healthy lift to see Polaris report adjusted EBITDA of US$59 million, which was 5% greater than a year earlier. That will increase substantially now that the Generación Andina facilities are online.

Earnings will also benefit from the added long-term impetus given by the secular trend to renewable sources of energy globally.

Despite the costs incurred as part of the Union Energy deal and construction of the El Carmen and 8 de Agosto plants, Polaris finished 2019 with a solid balance sheet. This included cash of almost US$33 million and total net debt of US$184 million, which is a manageable three times EBITDA.

If you buy Polaris after the latest market crash, you can lock-in a regular quarterly dividend yielding just under 6%. The dividend had a 2019 payout ratio of 73%, indicating sustainability. That ratio will fall because of earnings from the El Carmen and 8 de Agosto facilities.

Foolish takeaway

Polaris is one of the best plays on the global trend to renewable sources of electricity. It has exposure to what were some of the fastest-growing economies in Latin America, boding well for its long-term earnings growth.

Meanwhile, Polaris's earnings will expand during 2020 because of the two hydro-plants commissioned at the end of 2019. While waiting for this to bolster the renewable electric utility's market value, you'll be rewarded by that juicy 5.9% dividend yield.

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