Why This Renewable Stock Could Be the Best Addition to Your TFSA

Description

Although slow, renewable power has been gaining grounds consistently in the last few years. The cost per-watt of renewable power has notably come down with technological developments in all these years. In Canada, more than 17% of the countries' total energy supply comes from renewable sources, which is much higher than the global average of around 13%.

However, that also indicates huge growth potential in the coming years. As more people switch to clean energy, we would see more and more investments in the renewables power generation in the coming years.

A clean energy leader

One renewable energy company that has been working in this domain for decades is **Innergex Renewables Energy** (TSX:INE). It is a $3.2 billion company that develops and operates renewable power-generating facilities with a focus on hydroelectric, wind, and solar. It has a net installed capacity of approximately 2.6 gigawatts and has a presence in Canada, the U.S., France, and Chile.

While the renewables power has been there around for years, people have been slow to switch to green energy sources. The government policies could continue to play a crucial role in driving the reach of renewables. Notably, the cost of power generated by renewables—a major constraint a few years back has not been a major issue lately.

Innergex Renewables: Earnings growth

Innergex Renewables' topline growth slowed down marginally in 2019 after a solid run-up in the last three years. However, it reported a net loss of $26 million in 2019 compared to solid gains in 2018 YoY. Analysts expect fair earnings growth from INE in 2020 and 2021.

What's important for investors here is the fact that Innergex generates almost all of its revenues from long-term contracts, enabling top-line stability and predictability. Despite being an independent power producer, the company sells its power to customers willing to make long-term contracts.

Innergex announced its strategic alliance with **Hydro-Quebec**, one of the world's biggest hydro power companies last month. Under the alliance, both will target specific investments in wind and solar projects with battery storage or transmission, distributed generation, off-grid renewable energy networks. The deal is expected to accelerate Innergex's earnings in the next few years.

Dividends

Innergex stock fell to its 52-week lows this week amid broader market weakness. At the time of writing, it is trading close to $18, down about 40% from its last month's high of $22. The recent selloff could be an attractive opportunity to gain exposure to one of the socially responsible companies.

Innergex has an attractive dividend profile as well. It offers a yield of 4.6% at the moment, higher than equities at large. It has managed to increase dividends by an inflation-beating 3% compounded annually in the last five years.

Innergex's fair yield and solid growth potential make it an attractive investment proposition for Tax-Free Savings Account (TFSA) investors. The total returns generated from the stock will be tax-exempt throughout the life of the investment and also at withdrawal.

Despite technological advancements and supportive government policies, renewable energy companies have had difficult times when it comes to profitability. However, over the next few years, we will see the cost of green energy coming down further as businesses increase their capacities and achieve economies of scale.

On similar lines, Innergex's large scale and diversified operations make it a strong name in the renewables space. Its fair yield and recent correction add up to an attractive investment proposition for the long term.

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1. TSX:INE (Innergex Renewable Energy)

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