Buy TSX “Green Power” Stocks for Safer Long-Term Returns

Description

Energy investing is undergoing a sea change. There was already a strong thesis for ditching fossil fuels and getting into green power. But the spread of COVID-19 has greatly exacerbated the decline of oil. Hydrocarbon fuels are sinking, with everything from the oil price war to tanking demand hitting fuel prices. So, is it time to jump ship and start investing in the green economy?

The case for buying green power stocks has certainly been growing stronger. Renewables were already becoming one of the oil industry’s strongest headwinds. Cost efficiency has been creeping up, making alternative fuels a viable contender for cheap energy production. Pundits like Jim Cramer have gone full bear on the black gold. Celebrity endorsements have also been mounting, raising the profile of the green economy.

Investing in green power is a strong, long-term play

There’s also the pipelines issue, one of the main bones of contention for Canadian energy investors. There’s always a weak case for buying into a sector that can’t effectively transport what it produces. And pipelines faced one challenge after another. Investors grew impatient with pipeline holdups, and share prices dipped with every new legal hurdle.

Now, though, the whole situation has been thrown into reverse. Demand is down at pre-Great Depression lows. Oil is so cheap it almost makes no sense to keep pumping it. Storage space has become an issue. The idea of storing it in bags liked boxed wine has even been floated. And the clamour for new pipelines has given way to the grim irony that there are now, in fact, too many of them.

Energy stocks fell 7.7% midweek, as it emerged that Canadian GDP had slipped 9% in March compared with the previous month. The sector has long been divisive for investors. Dividend investors have eyed energy stocks as being resistant to recessionary forces. However, energy production is taking a big hit as businesses go dark during the coronavirus lockdown.

Northland Power is a key stock in the renewables space. A 4% dividend is enticing, though investors should be looking beyond yield at the moment. Clean electricity generation is mostly a Canadian enterprise for Northland Power, though it also has operations beyond our shores. Notable operations include Mexico, Europe, and even Asia thanks to a key windfarm deal.

Power is generated by natural gas and renewable energy sources, including wind, thermal, and solar. Offshore wind is emerging as one of the biggest sectors for renewables upside potential, and Northland Power ticks this box. Northland Power's offshore wind operations are also geographically diversified and include the Netherlands, Germany, and Japan.

The bottom line

To paraphrase Warren Buffett, smart investors should aim to be fearful when others are greedy and greedy when others are fearful. However, this is not the time to back up the truck on stocks just because they're cheap. The thesis for energy investing is especially uneven right now. With pundits like Jim Cramer going bearish on oil, perhaps the green economy is a safer bet for long-term returns in this embattled sector.

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