A Diamond-in-the-Rough Dividend Stock

Description

When investing in the stock market, remember the warning label: “Past performance is no guarantee of future results.” Investors, especially new ones, must not get too enthusiastic about the distant and recent track records of companies’ revenue and profit. However, you can’t simply ignore stocks that are blossoming in the present.

There *are* stocks in the **TSX** that you might call a diamond in the rough. It means the company hasn’t shown a stellar profitability record but is displaying incredible growth momentum. **Polaris Infrastructure** (TSX:PIF) deserves attention, and investors should find this renewable energy company an exciting investment prospect.

Worthy pick

The utility sector to where Polaris belongs is not as sensational as the technology sector. But for dividend investors looking for safe and reliable income streams, utility stocks are the preferred choices. As of this writing, the industry is outperforming the general market (+5.81% versus -5.52%).

Polaris is beating the TSX, too, with its 16.38% year-to-date gain. Over the last five years, the total return is 58.66%, although it should eventually progress in the coming years. From a low base, the earnings per share (EPS) of this $214.39 million company are accelerating meaningfully. The 133% year over year EPS climb should heighten further investors’ interest.

In terms of earning potential to would-be investors, Polaris pays a hefty 5.79% dividend. The company generates stable cash flows from its renewable energy assets. Moreover, the payouts are sustainable, given the low 45.11% payout ratio. Significant dividend growth is likely due to several acquisition and development projects in the pipeline.

Thorny issue

Market analysts recommend a buy rating for Polaris, notwithstanding the political risk. In the next 12 months, their price estimate is $22.41 per share or a 64.17% jump from its current price of $13.65. The Toronto-based utility firm develops and operates geothermal and hydroelectric energy projects in Latin America.

Its principal geothermal renewable energy asset is the San Jacinto-Tizate Geothermal Power Plant in Nicaragua. The infrastructure has an installed capacity of 77 MW and fills the overall energy requirements of the country. Social and political unrest in Nicaragua are threats to the business, not to mention U.S. economic sanctions.

In Peru, Polaris operates hydroelectric Run-of-River (ROR) Power Plants (Canchayllo, El Carmen, and 8 de Agosto) with 32 MW total capacity. Early-stage development projects are underway that should increase capacity to around 189 MW soon. Barring civil unrest or disruption in operations, the annual growth estimate in the next five years is 77.9%.

Rough diamond

The uninterrupted operations in Nicaragua and ongoing diversification in Peru gives Polaris Infrastructure massive upside potentials. In the first half of 2020 (six months ended June 30, 2020), net earnings in Q2 2020 was $3.33 million versus the $3.5 million net loss in Q2 2019.

If you think the utility stock is an aggressive risk, manage the size of your position. Set a short-term horizon to see if the mentioned risks will weaken future earnings. Nonetheless, the utility stock offers a unique opportunity to dividend investors. Like a diamond in the rough, Polaris is still unpolished.

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