2 TSX Renewable Energy Stocks to Buy for Passive Income and Future Growth

Description

Do you ever wish you'd gotten into the electric vehicle sector before it exploded and went to the moon? What about the marijuana sector? Or cryptocurrency?

Well, you still have a chance today with the renewable energy sector. While it's been around for a few years now, the sector has yet to take off in the fashion we've seen from others.

The demand for clean energy is only set to accelerate in the next decade, as countries and corporations shift away from the use of hydrocarbons towards more sustainable sources of energy.

The TSX sector actually has a surprisingly high amount of renewables companies you can invest in. Right now, they're nowhere close to the energy giants that spit out the high dividends Canadian investors love. However, they do offer a surprisingly attractive blend of income and growth potential.

Keep in mind that these companies are growing and are still burning cash to fund their research and development; hence, their fundamentals might not look the best.

TransAlta Renewables

TransAlta Renewables (TSX:RNW) develops, owns, and operates a series of renewable power generation facilities. Its current holdings include 23 wind 13 hydroelectric, seven natural gas generation, one solar, and one natural gas pipeline facility. In total, it has 2,968 megawatts of net generating capacity.

RNW has improved its fundamentals substantially, boasting an operating margin of 18.30%, an improved current ratio of 0.73 (although this still could be better), $336 million in operating cash flow, and 8.70% of quarterly year-over-year revenue growth.

However, its year-over-year quarterly earnings growth has suffered and is down -18.90%. The diluted trailing 12-month EPS of 0.52 also isn't that great. The company also has just $244 million in cash on the balance sheet, which works out to $0.91 per share.

Like many of its more polluting cousins in the traditional energy sector, RNW pays a high dividend, with a current payout of $0.94 per share for a yield of 4.92%. However, the payout ratio is grossly high and unsustainable at 180.76%, so be cautious before you buy.

Brookfield Renewable Partners

A more established pick among the renewable energy sector is **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP). This company operates a series of renewable power-generating facilities across the world, using solar, wind, hydroelectric, biomass, co-generation, and pumped storage sources.

BEP.UN is a growth stock, so we should evaluate it on those grounds. Year over year, BEP.UN has seen quarterly revenue growth of 14.20%, with latest trailing 12-month revenue of $4.1 billion and a gross profit of $2.82 billion.

However, the overall earnings have been somewhat disappointing, with a diluted earnings per share of -$0.80, -$301 million in net income, and -$1.55 billion in free cash flow. This has resulted in a profit margin of -7.33%, despite an overall profitable operating margin of 25.10%.

Despite this, BEP.UN still manages to pay a decent dividend of $1.55 per share for a yield of 3.08%. Despite the shaky fundamentals, investors have clearly priced in great growth for BEP.UN's future, with shares up over 127% in the last five years beating the TSX at 44%.

The Foolish takeaway

Evaluating the prospect of investing in renewable stocks must go beyond examining financial ratios and measures of solvency. These stocks are still nascent and growing, and thus must reinvest in themselves, which tends to leave them a bit overleveraged and devoid of cash.

The sector is clearly growing and eventually may reach a point where the growth goes parabolic as a result of some catalyst or widespread societal adoption. Buying both stocks right now while they're still cheap and holding for the long term might be a good play.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
3. TSX:RNW (TransAlta Renewables)

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