



## 5% Dividends + 20% Growth: Watch This Green Energy Stock

### Description

Steady dividend growth is the magic formula for long-term wealth creation. Most stocks can maximize shareholder rewards or reinvest all their cash to propel growth. But the best stocks can strike the perfect balance between both.

These stocks tend to be well-managed companies in rapidly expanding industries. Here's a closer look at one potential opportunity in the [green energy sector](#).

### TransAlta Renewable

Calgary-based **TransAlta Renewable** ([TSX:RNW](#)) is an ideal target for investors seeking steady wealth creation. The company is a subsidiary of an electricity provider, which anchors its financial strength. Meanwhile, TransAlta Renewable has been expanding its services across the world. It owns and operates 76 green energy facilities across Canada, the U.S., and Australia.

There's a lot more room for growth. In the near term, TransAlta intends to deploy \$3 billion to boost energy production capacity by two gigawatts by 2025. This accelerated growth plan should significantly boost earnings and free cash flow in the years ahead.

TransAlta has a robust pipeline of future developments, including the Mount Keith transmission system and Northern Goldfields Solar Project in Western Australia. These multi-billion-dollar projects add incremental cash flow to TransAlta's bottom line annually.

Much of that cash flow is paid back to shareholders, but some are reinvested to expand further. In recent years, growth has accelerated as the transition to clean energy gathers steam. It's a trillion-dollar opportunity for investors.

### Dividend-growth strategy

TransAlta Renewable pays a hefty dividend. At the time of writing, the stock offers a 5.3% dividend

yield. That's roughly double the stock market's average. It's also enough to generate \$4,320 in annual passive income from a maxed-out Tax-Free Savings Account (TFSA).

Most high-yield dividend stocks offer little to no growth. The stock price remains rangebound while shareholders collect dividends. However, TransAlta's steady expansion has delivered reasonable capital appreciation in recent years. Since 2020, the stock is up 44%, which implies a 20% compounded annual growth rate (CAGR).

Assuming the company can sustain this pace of 25% CAGR and dividends are reinvested, the stock could be a 10-bagger within 10 years.

Management seems aware of this, which is why the team has implemented a buyback program. In its most recent quarter, TransAlta Renewable repurchased 1.4 million shares at an average price of \$12.50. Right now, the stock is trading at \$17.88, so this recent buyback has already created value for shareholders.

## Bottom line

Dividend-growth stocks in expanding industries are the perfect source of wealth creation.

TransAlta Renewable strikes the perfect balance between shareholder rewards and steady growth. The stock's above-average dividend yield, generous buyback program, and steady price appreciation make it an ideal target for long-term investors. Keep an eye on this opportunity.

### CATEGORY

1. Energy Stocks
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