Missed Out on Canadian Energy Stocks? My Best Renewable Energy Stocks to Buy and Hold

Description

Canadian energy stocks generally had a super run this year, as illustrated by the year-to-date total return of about 64% in **iShares S&P/TSX Capped Energy Index ETF**, of which 93% was driven by price appreciation.

It may be easier to shop for value in renewable energy stocks instead. The renewable energy sector had a selloff from higher interest rates. Additionally, the transition to renewable energy will take decades to occur. Renewable energy development and construction is springing up all around the globe.

Northland Power

Northland Power (TSX:NPI) stock has been one of the most resilient renewable energy stocks that delivered a positive total return in the last 12 months thanks to its dividend.

It's a global player with a focus on offshore wind. Over its +30 years of operation, including being involved in development and construction of renewable assets, it has grown its portfolio to an operating capacity of more than three gigawatts.

In the first nine months of the year, Northland Power increased its sales by 24%, gross profit by 23%, operating income by 60%, and adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization; it's a cash flow proxy) by 35%. As well, its cash from operating activities rose 22% and doubled its adjusted free cash flow. On a per-share basis, its adjusted free cash flow increased by almost 93% to $1.81 per share.

Since 2019, Northland Power has significantly improved its debt-to-equity ratio from 8.4 times to 2.4 times. It currently enjoys an investment-grade S&P credit rating of BBB.

At just under $38 per share, analysts believe the stock is discounted by 21% and can potentially climb

27% over the next 12 months. It also yields almost 3.2% at writing.

TransAlta Renewables

TransAlta Renewables (TSX:RNW) has more than 50 generating facilities across three countries. The stock could be a better value than Northland Power. The stock has fallen 24% in the last 12 months. Its higher yield should also appeal to income investors.

In the first nine months of the year, TransAlta Renewable increased its production by 13%, sales by 22%, and adjusted EBITDA by 10%. Its cash from operating activities dropped 37%, though. Management explained that it was primarily due to an “extended outage at the Kent Hills 1 and 2 wind facilities, lower finance income related to subsidiaries of TransAlta, and movements in working capital.” Free cash flow increased by 8%; the same growth rate also applies on a per-share basis.

In the period, its cash available for distribution per share was $0.69, which was a penny less than the dividends paid in the period. Currently, it yields 6.6% at $14 and change per share. Since 2019, it’s debt-to-equity ratio went from 38% to 87%.

The stock appears to be riskier than it was in 2019, but management has declared the first three months of dividends for next year. It’s obligated to pay these dividends. At $14 and change per share, analysts believe the stock can appreciate 16% over the next 12 months.

The Foolish investor takeaway

There’s a multi-decade growth trend in renewable utilities. Investors can start their research with Northland Power and TransAlta Renewables. There’s no need to rush.

CATEGORY

1. Energy Stocks
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1. TSX:NPI (Northland Power Inc.)
2. TSX:RNW (TransAlta Renewables)

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