Dividend Investors: Buy This Renewable Energy Superstar Now

**Description**

Since 2014, oil and gas producers in Canada have consistently struggled due to the low prices of oil, lack of pipeline access in Canada, and an increase in social initiatives to prevent future pipelines from being built. Investments have run away from Canadian oil sands, and projects have been cancelled due to political strife. That being said, I believe renewable energy is the future of energy.



## Global trends are looking green

Renewable energy decades ago might have been laughed at due to the limited returns on investment. Investors at the time weren't thinking about the social impact costs of investing into oil. With oil and gas prices struggling, and with foreign investment at risk, it is no question why renewable energy is increasing at a strong rate.

With technological efficiencies, the price of wind turbines and solar panels have been steadily dropping. In addition, Canada's generating capacity has increased from 70,000 megawatts in 2006 to 100,000 megawatts in 2017. This represents a 42% increase in the amount of energy being generated from renewable sources in Canada.

Global demand is also projected to rise at a strong rate. According to the International Energy Agency, renewable energy could expand by 50% over the next five years. Based on these trends, I believe this international renewable energy company will be a great long-term investment.

## Strong company to weather the storm

**Northland Power** (TSX:NPI) is my top pick for dividend investors looking to take advantage of the dip. It is important to note that renewable energy companies have fared well during the market pullback but have still come down to provide an opportunity to buy into a trend that will be sustainable well into the future.

Northland is a global renewable energy player, with operations in North America, Europe, Asia and

South America. With the combined total, Northland owns and operates 2.4 gigawatts of power. Northland has acquired EBSA, a high-quality utility company in Colombia, which has increased diversification and free cash flow by generating $100 million of earnings.

By analyzing Northland Power's most recent financial quarter (Q3 2019), we can calculate the payout ratio to see whether Northland is generating enough free cash flow to cover the dividend declared.

In Q3 2019, Northland's free cash flow amounted to $74.112 million, and the dividends paid amounted to $54.122 million, representing a payout ratio of 73%.

Analyzing NPI's 2018 annual statement, free cash flow generated amounted to $337.623 million, and dividends paid amounted to $212.353 million, representing an annualized payout ratio of 62%. The payout ratio of the most recent quarter and the annual 2018 report show strong free cash flow to be able to sustain the dividend.

In addition to being diversified, revenue is generated through long-term contracts. With all of Northland's projects, there are at least 10 years remaining before the contract will expire. Therefore, it is easy to project what Northland's revenues will look like in the future and anticipate dividend increases when projects are finished being constructed.



## Buying opportunity

Northland Power's shares have pulled back approximately 42% from recent highs in March. A decrease in share price has reduced the price-to-earnings ratio to 16 times. This is considered a low multiple for the renewable energy sector and indicates the share price is attractive. A lower share price also increases the dividend yield. As of writing, the dividend yield is at 5%, which I believe to be an attractive yield for such a strong company.

## Bottom line

Northland Power has created a portfolio of assets that are diversified, supported by long-term revenue contracts, and benefit from global trends. With the price correction, it has created a rare opportunity to buy low and profit.

**CATEGORY**

1. Energy Stocks
2. Investing

**POST TAG**

1. Editor's Choice

**TICKERS GLOBAL**

1. TSX:NPI (Northland Power Inc.)

**PARTNER-FEEDS**

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

**Category**

1. Energy Stocks
2. Investing

**Tags**

1. Editor's Choice

**Date**
2025/08/15
**Date Created**
2020/03/24
**Author**
andrewgudgeon