



Top Canadian Renewable Energy Stocks of 2023

Description

The Canadian stock market is heavily dominated by the energy sector, which is made up of publicly traded companies involved in the fossil fuel industry, such as pipelines, [oil & gas exploration companies](#), and natural gas producers. Fossil fuels are generally non-renewable – once used, they cannot be replenished quickly.

In contrast, a new but rapidly growing subset of the energy sector is the renewable energy industry. Growing attention to climate change, controlling carbon emissions, and ensuring sustainability has shifted investor attention to stocks of these companies as a potential high-growth future investment.

What are Canadian renewable energy stocks?

Canadian renewable energy stocks are the shares of publicly listed companies involved in the production, sale, or use of clean or low emission sources of energy. Examples include solar, wind, hydroelectric, geothermal, nuclear, [hydrogen](#), or biofuel energy production. Shares of companies involved in the development of clean energy technologies and support services also qualify.

Some Canadian renewable energy stocks are [small or mid-cap companies](#) dedicated to the renewables space. These companies often focus on research and development to pioneer and deploy new energy sources. The focus is on revenue growth, and substantial operating losses and negative earnings are common. This leads to significant volatility in share prices, with the potential for explosive growth but also high risk.

Other Canadian renewable energy stocks are [large-cap](#), [blue-chip companies](#) that have pivoted a portion or all their operations to the renewables space. These companies often have stable cash flows, healthy margins, excellent balance sheets, and maybe even pay a dividend. However, top-line revenue growth is usually slower, and share price appreciation more gradual and muted.

Investing in renewable energy stocks in Canada

Canadian investors looking to buy renewable energy stocks can begin their search in the Energy and Utilities [market sectors](#). From there, it is important to determine if the company under consideration is a pure-play renewable energy stock, or a hybrid.

The former refers to a company that derives a substantial portion of its revenue from renewables. The latter refers to a company that derives a smaller, non-core portion of its revenue from renewables.

Top Canadian renewable energy stocks

Here are some of the top Canadian renewable energy stocks, by highest market cap:

Renewable Energy Company	Description
Brookfield Renewable Partners (TSX:BEP.UN)	A pure-play renewable energy owner and operator with hydroelectric, wind, solar, and storage facilities across the world
Algonquin Power & Utilities (TSX:AQN)	A North American utilities provider focused on renewable energy generation, natural gas, and water services
Northland Power (TSX:NPI)	A North American utilities provider that enters into power purchasing agreements with renewable energy generators

Brookfield Renewable Partners

As one of **Brookfield Asset Management**'s many subsidiaries, Brookfield Renewable Partners is Canada's largest pure-play renewable energy company. The company owns and operates around 6,000 renewable power generating facilities in North America, Colombia, Brazil, Europe, India, and China. It focuses on hydroelectric, wind, solar, distributed generation, pumped storage, cogeneration, and biomass sources.

Currently, Brookfield's portfolio can generate upwards of 21,000 megawatts of installed capacity. Hydroelectric sources make up 60% of its facilities. Throughout 2022, Brookfield is continuing a strong track record of growth. The company also pays a decent dividend.

Algonquin Power & Utilities

Algonquin Power & Utilities provides water, electricity, and natural gas services to millions of customers across North America. It has a portfolio of generation, distribution, and transmission utility assets. A portion of its facilities use renewable energy sources, mainly hydroelectric, wind, solar, and geothermal, with generating capacity of 2.3 gigawatts. The rest of its services are in natural gas and water provision.

Algonquin has shown strong growth, and it plans to spend \$9.4 billion on capital projects through 2025 to add another 1.6 gigawatts of generating capacity. Notably, Algonquin has also grown its dividend payout for 10 consecutive years, a rarity even among the [TSX utilities sector](#).

Northland Power

Northland Power is another pure-play renewable energy company, developing, building, and operating a portfolio of green power projects in North America, Europe, Latin America, and Asia. It focuses on wind, solar, hydroelectric, natural gas, and biomass using a set of power purchase and revenue agreements. Currently, its 27 controlling or minority interests generate a collective 3.2 gigawatts of capacity.

Northland has posted very strong growth, doubling its annual revenue since 2015 with 2022 quarterly year-over-year revenue growth of 29.9%. The company also maintains an excellent operating margin for the Utilities sector. Northland has also expanded operations outside of North America, with a 2019 purchase of EBSA, a Colombian regulated utilities company that serves half a million customers in that region.

What to consider when choosing Canadian renewable energy stocks

When considering Canadian renewable energy stocks, many of the same factors for [fundamental analysis](#) and valuation that apply to the Utilities and Energy sectors should be considered:

1. Does the company pay a dividend? If so, is the payout ratio reasonable and sustainable?
2. Is the company's balance sheet healthy? What is the current and long-term debt-to-equity ratio? Is there negative shareholder equity?
3. Has the company consistently grown quarterly revenues and earnings year over year? If so, at what rate?
4. Are the company's gross and operating margins positive and ample?
5. How does the company's enterprise-value-to-EBIDTA ratio compare to peers in its sector?
6. What are the company's price-to-book, price-to-sales, price-to-free-cash-flow, and [price-to-earnings ratios](#), and how do these compare to peers in its sector?
7. What does the company's return on assets, return on equity, and return on invested capital ratios look like?

Are Canadian renewable energy stocks right for you?

Investing in Canadian renewables stocks is a high-risk, high-reward endeavour. Because the industry is so new and technological advancements ever-emergent, the potential for disruption is ripe.

Most Canadian renewable energy stocks do not have the best balance sheets, often exhibiting high amounts of debt, operating losses, and low or negative earnings. This contributes to some stocks having higher than normal volatility.

As well, much like the Energy sector, renewable energy stocks are cyclical, outperforming in some economic conditions and underperforming in others. During periods of economic growth and falling interest rates, renewable energy stocks often benefit from a tailwind. When inflation and rising interest rates strike, their margins and valuations can drop sharply.

However, with high volatility and risk comes strong growth and potential for high returns. Investors who buy into a renewable energy stock with solid fundamentals during a period of under-valuation could reap significant returns once the industry takes off. As well, investors who heavily weight environmental, social, or governance factors when making an investment would do well to buy renewable energy stocks.

TICKERS GLOBAL

1. TSX:AQN (Algonquin Power & Utilities Corp.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
3. TSX:NPI (Northland Power Inc.)

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