A High-Yield Stock for Green Investors

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No one likes fossil fuel stocks right now. Even at rock-bottom prices, it's hard to find buyers these days. The S&P/TSX Capped Energy Index, which is almost entirely composed of traditional oil and gas companies, was down about 24 per cent in the past 12 months, as of the time of writing.

By contrast, the S&P Global Clean Energy Index was up about 33 per cent in the same period. That, in a nutshell, tells you what investors see happening in the future.

There are many green energy and infrastructure companies from which to choose but here's one that I discovered only recently.

Atlantica Yield plc
(NDQ:AY)

Recent price: $24.01 (all figures in U.S. dollars)
Annual payout: $1.60 (forward 12 months)
Yield: 6.7 per cent
Risk: Moderate
Website: www.atlanticayield.com

The business: Atlantica Yield is a London-based company that trades on Nasdaq. It owns a diversified portfolio of renewable energy, natural gas, electric transmission, and water assets in North and South America, and certain markets in Europe, the Middle East, and Africa (EMEA). The company has 24 assets, comprising 1,496 MW of renewable energy generation, 300 MW of efficient natural gas, 1,152 miles of electric transmission lines, and 10.5 Mft3 per day of water assets.

Why I like it: Let's start with the yield. The shares currently yield 6.7 per cent, and the company has a history of steadily raising its distributions. In fact, the payout has increased for nine consecutive quarters. The distribution is up 145 per cent from this time three years ago.

This green energy and infrastructure portfolio is well diversified both geographically and in types of assets. The company is steadily increasing its cash available for distribution. Most of its revenue (75 per cent in the first half of this year) is from renewable energy.

Financial highlights: First half results were profitable, but revenue and earnings were down from the same period last year. Revenue came in at $504.8 million, down from $513.1 million the year before. The company said this was primarily due to the depreciation of the euro against the U.S. dollar. On a constant currency basis, revenue for the first half would have been up 2.8 per cent compared with 2018.

Profit for the first half was just under $17 million compared with $67.4 million in 2018. On the positive side, cash available for distribution (CAFD) was $94.5 million in the six-month period, a 5.3 per cent increase compared with $89.7 million in the first half of 2018.

The company reported that production in the U.S. solar portfolio in the first half of 2019 was lower than in the same period of 2018, mostly due to lower solar radiation in the first quarter and scheduled maintenance that took longer than expected. Management said solar radiation has improved since the end of March, and production from the U.S. solar assets in the second quarter of 2019 was in line with the second quarter of 2018.

Risks: Renewable energy can be unpredictable at times, as the shortfall in solar production in the first quarter illustrates. If the sun doesn't shine and the winds don't blow, output drops. However, all renewable energy companies are subject to this kind of risk and are learning to cope with it.

This is not a large company. It's market capitalization of $2.44 billion puts it in the mid-cap range. The stock can be volatile – trading range over the past 12 months has been between $17.50 and $24.75 per share.

What others say: The stock got a boost when Zacks recently added it to its Buy list, citing an upward trend in earnings estimates as a key factor. Zacks is regarded as one of the top stock ratings services on Wall Street and is very stingy with its Buy ratings. The company has five categories of ratings, from Strong Buy (#1) to Strong Sell (#5). Atlantica Yield has been rated a #2 – Buy. Strong Buy ratings are given to only 5 per cent of the companies that Zacks covers. Buy ratings are limited to the next 15 per cent.

"The change in a company's future earnings potential, as reflected in earnings estimate revisions, and the near-term price movement of its stock are proven to be strongly correlated," the Zacks report said.

“For Atlantica Yield, rising earnings estimates and the consequent rating upgrade fundamentally mean an improvement in the company’s underlying business. And investors’ appreciation of this improving business trend should push the stock higher.”

Zacks estimates that Atlantica Yield will earn $0.78 a share this year, an improvement of 85.7 per cent over 2018.

Distribution policy: The stock pays quarterly distributions, with the next one due in December.

Who it’s for: This security is suitable for investors who are looking for U.S. cash flow and want to add more green stocks to their portfolio.
How to buy: The shares trade on Nasdaq with an average daily volume of over 300,000. Any broker can acquire them for you.

Summing up: The yield makes this an attractive choice for readers looking for socially responsible energy/infrastructure stocks. Consult your financial advisor before you decide.

(Disclosure: I own shares in Atlantica Yield.)