

THE GLOBE AND MAIL **STOCK PICK**

Rising rates seen crimping this high yield renewable energy play

[Brenda Bouw](#)

Special to The Globe and Mail

Published Tuesday, Aug. 12 2014, 6:46 PM EDT

Last updated Tuesday, Aug. 12 2014, 7:59 PM EDT

The threat of rising interest rates and a lack of near-term growth prospects could continue to hold back shares of hydro, wind and solar company Innergex Renewable Energy Inc.

Shares of Longueuil, Que.-based Innergex, one of Canada's largest independent power producers (IPPs), are up about 15 per cent over the past 12 months, but have been flat year-to-date.

More Related to this Story

- [Kinder Morgan bets bigger is better](#)
- [Ontario seeks wind, solar energy storage options](#)
- [Suncor CEO 'not satisfied' with oil sands production](#)

While analysts say the company has a significant development pipeline, including four hydro projects and one wind project, they're hesitant to overpromote stock until the projects are closer to startup in the next year or two.

That's despite its dividend yielding close to 6 per cent and steady cash flow from its 26 hydroelectric plants, six wind farms and one solar farm.

All seven analysts covering Innergex have a "hold" or equivalent rating on the stock, with a consensus price target over the next year of \$11.17, according to Bloomberg data. That's below its 52-week high of \$11.43 in late December.

"They've got good visibility on growth, but it does seem to be too far out now to be a near-term catalyst, and the markets are always very short-term focused," said National Bank Financial analyst Rupert Merer, who has an \$11.25 price target on the stock.

Mr. Merer calls Innergex a “low-risk investment,” but says the potential for rising interest rates could weigh on the shares. Most IPPs are yield plays that tend to fall on expectations that rates are on the rise.

That kind of investor sentiment proved a setback for Innergex and other IPPs last summer and fall; Innergex shares fell to a three-year low around \$8.50 in October, amid rising yields of long bonds, such as the five-year Canada bond.

IPPs are sensitive to rising interest rates because they’re viewed more as income securities than growth securities.

“[Innergex] is a great defensive play. It’s a good yield product ... but we’re into a period where the market will be rewarding growth rather than some of these smaller defensive names,” said John Stephenson, chief executive of Stephenson & Co. Capital Management.

“The good news is they are growing, the bad news is that it might not be enough to offset a rising interest-rating environment.”

Still, analysts believe the company is well diversified with 77 per cent of its assets in hydro, 22 per cent in wind and 1 per cent in solar. (Its projects are located in jurisdictions such as British Columbia, Ontario and Quebec, as well as Idaho.)

The company claims that mix helped them offset weak results in their wind portfolio in the second quarter, while its hydro facilities produced close to their long-term average.

“I think we’re providing a good mix of project and growth opportunity,” chief executive Michel Letellier told investors in a conference call on Friday.

The company is also looking at acquisition opportunities outside of Canada to further diversify, especially as the rate of renewable energy development in Canada is slowing. Its current domestic focus has the potential to limit its long-term growth, analysts say.

Innergex also has a higher valuation than many of its peers, TD Securities analyst Sean Steuart said in a recent note, but believes that’s deserved given its “deep development pipeline” of hydro-electric projects. He has an \$11.50 price target on the stock.

John McIlveen, research director at Jacob Securities Inc., lowered his recommendation on Innergex to “hold” from “buy” on Monday, given that the stock price had recently closed in on his target of \$10.70.

Still, he believes the company has good management and a stable dividend that could increase.

“The safety of the dividend is high,” Mr. McIlveen said.

Follow Brenda Bouw on Twitter: [@BrendaBouw](https://twitter.com/@BrendaBouw) [https://twitter.com/@BrendaBouw]

Innergex Renewable Energy Inc performance over one year

August 12 4:00 PM EDT

Innergex Renewable Energy Inc **INE-T**

10.39 +0.070 +0.68%

Copyright 2014 Thomson Reuters. [Click for Restrictions.](#)

More Related to this Story

- [BREAKINGVIEWS The hidden risk of green energy 'yieldcos'](#)
- [the lunch A power player in Nova Scotia's burgeoning clean energy market](#)

Topics:

- [Innergex Renewable Energy Inc.](#)
- [Energy](#)
- [Longueuil, Quebec](#)