Bank on Green Energy Growth: Buy Brookfield Renewable Energy Partners LP

Description

By the end of 2014 22.8% of the world's electricity could be generated by renewable energy. Hydropower makes up 16.6% of that 22.8%. Coming in second is wind power, which contributes 3.1%. With 77.2% of electricity still coming from fossil fuels and nuclear power, there's plenty of growth left for renewable energy.

The world's hydropower capacity grew 4% per year between 2004 and 2014. From 2013 to 2014, the capacity grew 3.6%, keeping pace with inflation. On the other hand, wind power capacity grew 22.7% per year between 2004 and 2014. From 2013 to 2014, the capacity grew 16%.

Knowing that wind power makes a much smaller piece of the pie, it's no wonder it has a much higher growth rate than hydropower.

Today, you can get a piece of the steady growth of hydropower and the higher growth of wind power by investing in **Brookfield Renewable Energy Partners LP** (TSX:BEP.UN)(NYSE:BEP).

The business

For two decades Brookfield Renewable has invested in hydro energy, which now generates 80% of its power capacity. Then there's wind power, which generates 18% of its capacity. The power platform's assets are diversified across 75 river systems and 14 power markets in North America, Latin America, and Europe.

Geographically, 50% of Brookfield Renewable's power generation comes from the United States, 25% from Canada, 20% from Brazil, and 5% from Europe.

There's an added plus to generating power by wind—it is the lowest-cost option for renewable power generation.

Juicy income of 5.9%

Brookfield Renewable pays out a 5.9% yield. This is thanks to a cheaper share price as well as a stronger U.S. dollar. The renewable energy company pays out US$0.415 per quarter. So, if the Canadian dollar strengthens again, you would get a pay cut as a shareholder, though the loonie is unlikely to strengthen until the oil price improves somewhat.

Brookfield Renewable's yield is safe because it is supported by stable contracted cash flows. In 2015 92% is contracted. Although that percentage is expected to decrease gradually in the next few years, its cash flows are still highly predictable.

What does this mean for investors?

Brookfield Renewable Energy's funds-from-operations growth in the foreseeable future supports the distribution growth guidance of 5-9% per year. The company also has the goal to deliver long-term gross returns of 12-15%. Still, investors must pay the right price for the company at proper valuations in order to expect good returns.

With the 15% drop in price from the 52-week high, the shares are trading at a price-to-cash-flow ratio of 12.8, which isn't expensive and is a good place to buy some shares. Any further dips should be seen as an opportunity to buy more shares. Shareholders can expect an annual return of at least 12-15% in this quality company.

Because the company's distributions typically consist of a mix of return of capital, dividends, and other income, it's best for investors to hold the units in a TFSA or RRSP to avoid any headaches regarding tax reporting.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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