



A Top Utility for Growing Income: Brookfield Renewable Energy Partners LP

Description

If you're building a dividend portfolio, you're likely looking for investments that pay you a stable and growing income. The safest income comes from utilities that have a history of increasing their dividends. Imagine that! As shareholders, your income from this quality business is likely to increase every year. Here's why Foolish investors should consider **Brookfield Renewable Energy Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)) today.

The business

Brookfield Renewable Energy Partners LP owns renewable energy assets across seven countries. Primarily, its portfolio consists of hydroelectric generation (80%) and wind power generation (18%). Its focus areas include North America, Brazil, and Europe.

Past performance

In four years' time, its power generation capacity has grown to 7,400 megawatts, or a compound annual growth rate (CAGR) of 13%. With the growth of assets, cash flow also increased, leading to its distributions increasing by a CAGR of 6% in the same period. Business growth also caused its share price to trend upward, leading to annualized returns of 12% in that period.

Company targets

Investors should be excited to know that Brookfield Renewable targets annualized returns of 12-15% and distribution growth of 5-9% per year. Its cash flows are predictable because 92% is contracted with inflation escalation.

Valuation

What's more to like is that on October 8, 2015, Brookfield Renewable agreed to acquire a 292 megawatt hydroelectric portfolio in Pennsylvania. The share price reacted by dipping 1.6% on the Toronto Stock Exchange.

Brookfield Renewable believes the intrinsic value of the business is actually worth US\$34 per share, based on organic growth from rising power prices and the value that can be drawn from its existing projects that are in early and late stages of development. That is, no mergers and acquisitions are included in its intrinsic value calculation.

To be more conservative, we use a foreign exchange rate of CAD\$1.2 to US\$1. This indicates a fair value of \$40.80 per share on the Toronto Stock Exchange. Based on the October 8th closing price of \$35.50, the shares are discounted by 13%.

Distribution

Brookfield Renewable has increased its distributions for five years in a row. It currently pays a quarterly distribution of US\$41.5 per share. Based again on the above exchange rate, the shares yield 5.6% at \$35.50 per share.

Distributions are like dividends, but they're taxed differently. For shareholders, distributions likely require more work when reporting taxes, unless the shares are held in tax-advantaged accounts like RRSPs, TFSAs, or RESPs. Additionally, if the distribution consists of U.S. dividends, there will be a 15% withholding tax on that portion if the shares are held in a TFSA, RESP, or non-registered account.

However, I received the full August distribution in my TFSA without any portion of the distribution being withheld. The tricky part though is that the constituents of the distributions could change. So, the best place to buy Brookfield Renewable shares is likely in an RRSP. Interested investors can check out the "Tax Information" section of the Brookfield Renewable website to find out more.

In conclusion

Brookfield Renewable is a gift to investors today. It is a business in a stable industry. It receives most of its cash flows from long-term contracts. It pays an above-average yield of 5.6%, and the business forecasts to grow it by 5-9% every year. Finally, Brookfield Renewable expects to deliver total returns of 12-15% in the coming years.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

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