



A High-Income Utility You Don't Want to Miss

Description

You probably know by now that utilities have been solid long-term investments. After all, utilities like **Fortis Inc.** and **Canadian Utilities Limited** have increased dividends for over 40 years. Both companies have yields that are not bad at about 4%.

Attractive yield and income

However, there's one utility you don't want to miss. **Brookfield Renewable Energy Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)) has fallen 18% this year from its high. As the price of a stock falls, its yield increases. Brookfield Renewable now yields 6.5%.

To be fair, that high yield is also partially due to the strong U.S. dollar because the utility pays out distributions in U.S. dollars. Assuming a more conservative foreign exchange rate of US\$1 to C\$1.15 (instead of the current extra 30+%), the distribution yield would still be 5.7% at the current price of \$33.5 per share.

The utility has outperformed the **S&P/TSX Composite** and **S&P 500** in the one-year, three-year, and five-year periods. That doesn't come as a surprise because dividends make up about one-third of market returns.

Assets

Brookfield Renewable has US\$19 billion of power assets with 81% of hydro-generation and about 18% of wind power generation. Its assets are diversified across roughly 250 power generation facilities in seven countries, though 75% of assets are located in North America. It also has assets in Europe and Brazil.

Estimated distribution growth and total return

Over the next five years, Brookfield Renewable plans to invest US\$500-600 million each year and aims to deliver long-term total returns of 12-15%. Compared to market returns of 7%, that's a good deal.

Cash distributions that are paid out in U.S. dollars are expected to grow at a compound annual growth rate of 5-9%.

Brookfield Renewable has paid a growing distribution since 2011. In four years the distribution grew 23%, or 5.3% per year. Thanks to the strong U.S. dollar, the shares provide an above-average income of 6.5% per year.

Along with about 90% contracted cash flows, the business targets a payout ratio of 70% that keeps the distribution safe.

Strong financial profile

Brookfield Renewable has an S&P credit rating of BBB. The company has roughly US\$19 billion of assets and a debt-to-cap ratio of about 40%. Roughly 75% of its borrowings are non-recourse to Brookfield Renewable. Its borrowings have weighted average terms of at least seven years. Further, the business has available liquidity of US\$1 billion.

In conclusion

Brookfield Renewable focuses on long-term value creation. Additionally, there's a trend in the increasing usage of renewable energy, and the utility's global assets are ready to capitalize on that.

If you're looking for current income that grows faster than inflation, consider Brookfield Renewable at today's levels, which start you off with a 6.5% yield. I think Brookfield Renewable would serve nicely in a diversified dividend portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

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

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