



Why This 6.3%-Yield Utility Remains a Top Investment

Description

Brookfield Renewable Partners LP ([TSX:BEP.UN](#))([NYSE:BEP](#)) is an attractive investment with a stable, high income. However, it's also a compelling total-returns investment.

The shares have retreated 3.3% since it announced its \$800 million equity offering on June 6 at \$37.55 per unit. The equity offering completed on June 10. It now offers an attractive entry point for a high income with a yield of 6.3% at under \$37 per share.

The business

At the end of the first quarter, Brookfield Renewable had 258 power-generating facilities totaling US\$27 billion of power assets with operations across 15 markets in seven countries.

It has the capacity to generate about 10,400 megawatts of power. It generates 87% of its power from its hydroelectric portfolio and 12% from its wind portfolio.

It earns 65% of its cash flows from North America, 20% from Brazil, 10% from Colombia, and 5% from Europe.

About 90% of its revenues are contracted with inflation escalations, which makes its cash flows stable across different economic cycles. This makes a stable distribution.

Growing distribution

Brookfield Renewable has increased its distribution every year since 2012. Its annualized distribution growth has been 5.7% since then.

The company aims to grow its distribution by 5-9% per year from organic growth and proprietary project development. Its most recent acquisition was Isagen's 3,000-megawatt Colombian hydroelectric portfolio. As of May, Brookfield Renewable and its institutional partners owned about 83% of Isagen.

In the first quarter, Brookfield Renewable increased its distribution by 7.2%, and its payout ratio was 65.4% based on the funds from operations per unit generated in the three months.

Why invest in Brookfield Renewable?

Brookfield Renewable has an investment-grade balance sheet with an S&P credit rating of BBB. Its debt-to-cap ratio is 38%.

Because Brookfield Renewable operates in a highly regulated environment and significant operating expertise is required, there are high barriers to entry.

Because it invests globally, it can look for the best risk-adjusted investments at any time and account for favourable foreign currency exchange.

The company aims for long-term total returns of 12-15% per year. So, Brookfield Renewable is not just about its juicy 6.3% yield, but it has growth potential as well.

Conclusion

Brookfield Renewable is in fair-value range today. Assuming its multiple remains constant and it achieved the low end of its 12-15% total-returns target for each year, a \$10,000 investment today would turn into about \$14,050 in three years and about \$17,600 in five years.

Most importantly, the utility offers a stable, above-average yield of 6.3% that it aims to grow 5-9% per year. A \$10,000 investment will generate \$630 of initial annual income.

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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