

Is Brookfield Renewable Partners L.P.'s Big Yield Safe?

Description

Brookfield Renewable Partners L.P. ([TSX:BEP.UN](#))([NYSE:BEP](#)) continues to grow its scale and cash distribution. The company awards unitholders with a big yield.

The distribution hike early this month only makes the company more appealing. However, we'll determine if its distribution is safe.

Last year, the company invested US\$1 billion into hydro-based growth projects. As well, it expanded its geographical footprint by acquiring interests in Isagen, which has 3,032 MW of generating capacity from principally hydro-powered facilities in Colombia.

The business

Brookfield Renewable is a pure-play renewable business. It has 260 power-generating facilities totaling US\$25 billion of assets with about 10,700 MW of installed capacity.

Its portfolio is 88% hydroelectric generation, and it is complemented by 11% of wind generation.

Geographically, Brookfield Renewable generates 65% of its cash flows from North America, 15% from each of Brazil and Colombia, and 5% from Europe. So, it's subject to some currency risk — specifically, the strength of other currencies against the U.S. dollar.

USD dividend type unknown

Is Brookfield Renewable's yield safe?

Since the company has about 90% of its cash flows contracted with a 16-year proportionate contract term and inflation escalations built in, its cash flows are expected to be quite stable across economic cycles.

At about \$39.20 per unit, Brookfield Renewable offers a big yield of 6.2%. However, investors should note that in 2016, Brookfield Renewable's funds-from-operations (FFO) payout ratio was nearly 123%, which is not sustainable over the long term.

The normalized FFO payout ratio would have been slightly above 97%, which was still cutting it too close. That said, management seems committed to its distribution growth, as it has hiked its distribution for seven consecutive years.

In the last five years, Brookfield Renewable has hiked its distribution at a compound annual growth rate of 6.5%. And it just hiked its distribution by 5% early this month.

Usually, distributions that have been raised are viewed as safer than ones that haven't been raised in the past year. So, it's probably wise to trust the management.

Moreover, Brookfield Renewable's asset additions in 2016 and 300 MW of projects, which are either under construction or in advanced stages, will contribute to FFO, which should lower the company's payout ratio.

On a side note, investors should be aware that its yield will fluctuate from the changing strength of the U.S. dollar against the Canadian dollar because the company offers a U.S. dollar-denominated distribution.

Investor takeaway

Brookfield Renewable has a quality portfolio of primarily hydro assets which are complemented by wind assets. It offers a juicy yield of 6.2%, which is lifted by a strong U.S. dollar against the Canadian dollar.

Its recent payout ratio looks stretched, but management seems committed to growing its distribution and hiked it by 5% early this month, putting it on track for its eighth consecutive year of growth.

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