



Brookfield Renewable Partners LP Gets into the Solar Business: Time to Buy?

Description

It might be surprising, but up until a recent acquisition, **Brookfield Renewable Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)) didn't own any substantial holdings in solar power. On the contrary, 88% of its 10,700 MW portfolio was in hydroelectric with another 11% in wind. In that final 1% sliver, there were some solar and biomass facilities.

But that is all changing thanks to the recently announced acquisition of two businesses by Brookfield Renewable, its parent company **Brookfield Asset Management Inc.**, and other partners.

The first is **TerraForm Global Inc.** ([NASDAQ:GLBL](#)), which owns solar and wind projects around the world. In total, TerraForm Global has 919 MW of generation.

The other business is **TerraForm Power Inc.** ([NASDAQ:TERP](#)), which is based primarily in Canada and the United States with some assets spread in other parts of the world. This business has 2,983 MW of capacity. Brookfield Renewable will only be acquiring 51% of the company, so it will remain listed on NASDAQ; Brookfield will become its sponsor.

Combined, these deals will cost the syndicate US\$1.41 billion; Brookfield Renewable is responsible for approximately US\$500 million. Essentially, the company is expanding its power capabilities by approximately 1,365 MW

This acquisition is particularly exciting because Brookfield Renewable will be able to increase its margins significantly.

TerraForm outsourced 100% of the maintenance and operations of its portfolio. While outsourcing can sometimes be smart, it tends to be more expensive, cutting into margins.

At an Investor Day, CEO Sachin Shah said, "we can run the assets, we can do the O&M [operations & maintenance] in-house, we can reduce the cost structure of this business, and we can ultimately reposition it for growth in the future."

This is incredible news because Brookfield Renewable gains the assets it needs to make a big step

forward towards its goal of increasing its annual distribution by anywhere from 5% to 9% per year.

But this acquisition is just one of many ways the company has been pushing growth. It has a large development pipeline of 7,000 MW, of which 160 MW is currently in construction. Through 2017, the company plans to develop an additional 300 MW. While acquisitions are nice, organic growth is a great way for the company to reinvest its cash flow, expanding its overall funds from operations year after year.

One concern about Brookfield Renewable is that it is carrying US\$10.2 billion in long-term debt. When making large acquisitions, current liquidity is not always an option, so a company has to borrow. Fortunately, 90% of the debt is at a fixed rate with the debt not coming due for many years. Therefore, as the Fed increases rates, it shouldn't hurt the company too much.

All in all, Brookfield Renewable is one of my favourite REITs to own. You get a 6.29% yield, which is good for \$0.61 per quarter. Management increased that by 5% in February, so they're committed to rewarding investors. And you get to invest in a business that is looking to generate consistent cash flow from clean, renewable sources rather than fossil fuels.

If the company can continue to invest in large projects with its parent company, this dividend will be a great play.

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