Can Investors Depend on Brookfield Renewable Partners LP for Income?

Description

Investing in renewable sources is going to be one of the best investments we can make. It's a classic case of having your cake and eating it, too. Renewable sources will create predictable cash flows that should come with strong dividends, and investors know they're supporting companies that aren't polluting the planet.

One of my favourite companies in the market is **Brookfield Renewable Partners LP** (TSX:BEP.UN)(NYSE:BEP). It provides an incredibly lucrative dividend that management continues to increase and, just as important, it generates its cash flow from renewable sources.

But I'm not just looking for an investment that pays today; I want one that is dependable for the future. Is Brookfield Renewable dependable?

In many ways, it is, but there are risks. The biggest one is that its cash flow won't be able to support the ever-growing dividend. I've seen many companies continue to hike the yield without having the cash flow to support it.

If we look at Brookfield's 2016 numbers, there's a discrepancy: it paid US$1.78 in dividends per unit, but it only brought in cash flow of US$1.45. That means that its payout ratio was over 100% — a place you never want to see an investment. But if we look at Q1 2017, it brought in US$0.55 in funds from operations while only paying out $0.47, so things appear to be in an okay position.

There are a couple of reasons not to worry about cash flow for the future.

First, 91% of its revenue comes from inflation-protected contractual sources. That means that these contracts are required to buy energy and, if inflation increases, the energy prices change to compensate for that. With 91% of revenue being predictable, Brookfield is confident in its dividend.

Second, Brookfield has made a series of very smart investments over the past year that should help move the needle, such as the takeover of Isagen S.A. from the Colombian government, one of the country's largest hydroelectric companies. The company owns about 25% of this 3,032 MW electricity generator, so I expect to hear positive news in future quarters.

Another big acquisition Brookfield made with its parent company is in the solar business: specifically, the company acquired **TerraForm Global Inc.** (NASDAQ:GLBL) and 51% of **TerraForm Power Inc.** (NASDAQ:TERP). In total, this acquisition is costing the consortium US$1.41 billion with Brookfield contributing US$500 million. This will add 1,365 MW to Brookfield's books, which, again, will result in strong cash flows.

And finally, the company has 300 MW of organic production in development that should come online soon. Although organic production doesn't get discussed as much, being able to expand assets that it already owns is a great way to boost cash flow.

The general thesis is simple: Brookfield Renewable pays a 5.86% yield, which, the company has argued, should be increased by mid to high single digits every year. As long as it can continue making smart investments (and I believe it can), the cash flow situation should not become a problem. That, my friends, makes this a dependable dividend stock.

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