



Should You Add This 6%-Yielding Renewable Energy Stock to Your Portfolio?

Description

With many of the world's most powerful countries around the world recognizing the need to move toward cleaner energy sources, companies like **Brookfield Renewable Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)) present a unique opportunity for investors. And with this stock yielding nearly 6%, it's hard to not pay attention to what it has to offer.

Brookfield Renewable is a spin-off by **Brookfield Asset Management Inc.** You get a value investor with investment talents which is backed by one of the top asset management firms in the space.

The Brookfield Renewable portfolio consists of over 250 power facilities that generate 10,700 MW of power, of which 88% is in the hydroelectric space. However, Brookfield Renewable has been aggressively diversifying into other forms of power generation, including wind power and, with a recent acquisition, solar.

Brookfield Renewable has taken a two-pronged approach to growing its business. The first is its organic expansion with 6,000 MW in its pipeline. Currently, the company has 144 projects under construction that should wrap up by the end of 2018 which should add US\$20 million in incremental funds from operations on an annualized basis. And in 2019-2020, Brookfield Renewable has projects planned that will add US\$25-30 million in additional funds from operations.

The other prong has been on the acquisition front. Adding hundreds of MW of power to the portfolio every couple of years is important, but acquisitions are what help the company leapfrog expectations. Since the beginning of 2016, Brookfield Renewable has made two key acquisitions with its institutional partners that add thousands of MW to the portfolio.

The first acquisition was the takeover of one of Colombia's largest hydroelectric companies, **Isagen S.A.** This started in January, and by September, more than 99% of the total shares had been acquired by Brookfield and its consortium of institutional investors. Brookfield Renewable had to invest US\$730 million, but that got it 25% of the 3,032-MW-generating company. Isagen has another 3,000 MW in potential organic growth, so this was a big move for the company.

The other acquisition was Brookfield Renewable's first big entrance into the solar business. With its parent company, it purchased **TerraForm Global Inc.** ([NASDAQ:GLBL](#)) and 51% of **TerraForm Power Inc.** (NASDAQ:TERP). Brookfield Renewable contributed US\$500 million to the total US\$1.41 billion price tag. This deal will add an additional 1,365 MW to the company's portfolio when the acquisition is complete.

The TerraForm deal is special because there are numerous opportunities for Brookfield Renewable to streamline the operation and boost cash flow. Before the acquisition, TerraForm outsourced its operations and maintenance work. That eats into margins. The CEO of Brookfield Renewable, Sachin Shah, said at an investor day, "We can run the assets, we can do the O&M in-house, we can reduce the cost structure of this business, and we can ultimately reposition it for growth in the future."

Essentially, Brookfield used its value-investing mindset, bought a business that wasn't being appropriately run, and it is now in a solid position to reap the benefits.

In a recent letter to shareholders, management said that it remains confident that it'll be able to continue growing the dividend by 5-9% every year. If it can continue to expand its organic portfolio and make smart acquisitions, I'm confident that's possible.

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