



## A Buying Opportunity in a High-Yield Stock Right Now

### Description

If you have been looking for an entry point in a high-quality, high-yield name, you may be interested in **Brookfield Renewable Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)). Its shares dipped 4.5% on Wednesday, and now offers a yield of ~5.9%.

### Why did the shares dip?

Brookfield Renewable announced an equity offering of \$550 million at \$42.15 per unit. The shares just traded at the all-time high of about \$44.50 per unit earlier this month. So, when the news came out about an offering price that's lower, the units ended up dipping 4.5% to \$41.50 per unit.

The shares now trade lower than the offering price likely because equity offerings are seen as dilutive to current shareholders, who will now hold a smaller piece of the company pie, so to speak.

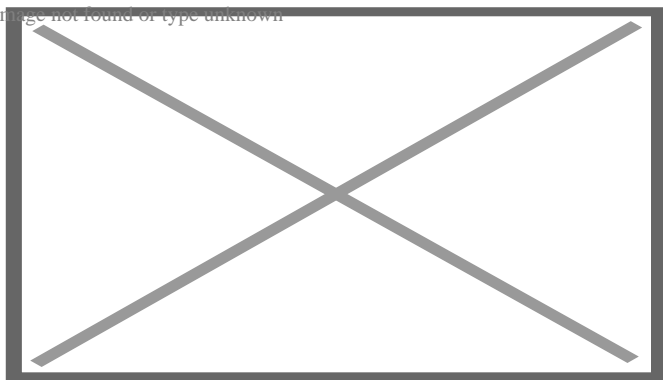
### Is the dip warranted?

I think the event can be viewed positively. Equity offerings are a great way to raise capital if the company's share price has been rising. This is the case for Brookfield Renewable.

Moreover, it's pretty common for Brookfield Renewable to issue new shares. From 2008 to 2016, Brookfield Renewable's share count increased by 3.25 times from 48 million to 156 million.

However, an investment in Brookfield Renewable since 2008 still delivered decent returns, despite the dilution. A \$10,000 investment would have more than doubled, essentially delivering an annualized rate of return of just north of 11%. A big portion of those returns came from its rich distribution — specifically, \$7,100 worth in accumulated distributions.

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Brookfield Renewable plans to use the net proceeds from the equity offering to repay outstanding debt and for general corporate purposes, including to fund new investments. This is a good use of capital.

### **Distribution and its growth**

What's valuable about Brookfield Renewable to unitholders is that they can enjoy a high, growing income without having to sell their units. Since 2012, the company has paid a growing distribution at a compound annual growth rate of nearly 5.6%.

Notably, Brookfield Renewable's distribution is U.S.-dollar denominated, so its yield will fluctuate with the strength of the U.S. dollar against the Canadian dollar.

Brookfield Renewable's distribution is supported by largely contracted cash flows generated from long-life hydro assets (88% of generation) and wind assets (11%).

In the long run, the company aims for a 70% payout ratio of cash flows and distribution growth of 5-9% per year. So, unitholders can expect distribution growth for many years to come.

### **Investor takeaway**

The dip to ~\$41.50 per unit caused by the equity offering is a good opportunity to buy shares of Brookfield Renewable at a ~1.5% discount from the offering price for a high yield of ~5.9%. Patient investors looking for a bigger margin of safety can consider the shares below \$40.

### **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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