TFSA Investors: Why You May Want to Consider High-Yield Renewable Energy Stocks as Interest Rates Increase

Description

Rising interest rates are usually a negative for utilities, especially for firms that are spending cash hand over fist. Many investors may be scratching utilities off their watch lists as interest rates continue to climb, but I believe this is a huge mistake, as there are many tailwinds that are likely to offset the headwind of rising interest rates.

I believe the concerns and fears over rising interest rates in Canada are a bit exaggerated. Many retirees and income investors rely on the stability and high yields of the utilities, and I don't believe such investors should make major changes to their portfolios just because interest rates are trending upward.

A rising interest rate environment is already baked in to the share prices of most utility stocks, and you probably won't do yourself any favours by selling your utilities now, especially since they likely meet the long-term goals of your portfolio. If you're invested in utilities, you probably care a lot about stability and monthly income, and it's a tough task to find other industries that will benefit from rising rates that offer the same level of stability as the utilities.

Interest rates are still low right now at 0.75% and it's very likely that further hikes are going to be gradual and modest.

What about renewable energy stocks?

The world is transitioning to sustainable energy, but there have been concerns that rising interest rates may slow this transition. Many renewable energy stocks have a great deal of capital-intensive projects with predictable future cash flow streams. As rates continue to rise, the value of the future cash flow stream declines, and that's not good news for the renewable energy company with many projects in its pipeline.

Although a rising interest rate environment is not good news for the renewables, there is reason to believe that the Federal Government may step in and introduce breaks for renewable energy companies to ensure that the transition to sustainable energy is not slowed. Such breaks may offset the headwind of rising interest rates, but we can only speculate at this point as to what potential benefits, if any, there may be.

Brookfield Renewable Partners LP (TSX:BEP.UN)(NYSE:BEP) is a solid utility that will offer investors high income in addition to stability and capital gains. Shares of BEP.UN currently yield a bountiful 5.48%. It's one of the world's largest publicly traded renewable power plays out there with ~218 hydroelectric facilities, ~35 wind power facilities, and a total installed capacity of over 10,600 megawatts.

Brookfield Renewable Partners has upped its distribution annually over the last five years, and the management team has the target of increasing its distribution by at least 5% per year.

The company has been active with acquisitions as it looks to beef up its already solid portfolio of renewable assets. Brookfield Renewable Partners is putting its foot on the pedal when it comes to organic growth and acquisitions, and I don't think the government wants to see this juggernaut's momentum slow down as rates continue higher.

Even if no additional benefits are rewarded to the renewables as rates rise, Brookfield and other renewable stocks are still very solid long-term bets for prudent income investors.

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