



Brookfield Renewable Partners LP Now Has Solar Power: Time to Buy

Description

When you think of renewable energy, the first thing that probably comes to mind is solar and wind energy. Those two types are talked about more than most. However, when we look at **Brookfield Renewable Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)), you see a company that was heavily invested in the most reliable of the renewable energy sources, hydropower, and really didn't have any exposure to solar.

That has now changed.

Brookfield announced on October 16 that it had completed the acquisition of 51% of **TerraForm Power Inc.** (NASDAQ:TERP). Although TerraForm will remain a publicly listed entity, this gives Brookfield exposure to solar energy.

All told, Brookfield Renewable committed US\$203 million to the acquisition, which is approximately 16% of TerraForm Power — its consortium of investing partners bought the rest. In total, TerraForm has a portfolio of 2,600 MW of solar and wind, so Brookfield is adding 338 MW to its cash flow-generating operations.

According to Brookfield, the acquisition will contribute US\$40 million of funds from operations immediately. Part of the reason Brookfield will be able to generate such a strong return is because of its ability to operate the business much more efficiently than TerraForm itself.

Historically, Brookfield had avoided solar because the company couldn't find assets that were undervalued. But TerraForm presented a unique opportunity because it outsourced 100% of the maintenance and operations of its portfolio. Doing that increased costs, making it harder to generate cash flow.

Sachin Shah, CEO of Brookfield, said just that at an Investor Day last spring, "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."

Brookfield purchased a business that it viewed was undervalued and, thanks to its ability to operate

these assets, will generate quite a significant sum of FFO.

And that explains what makes Brookfield such a great investment. It invests large sums of money to acquire major assets that can add immediate cash flow to the business. In the press release announcing the acquisition, Brookfield also revealed that it had over US\$1.5 billion of liquidity, so we can expect to see acquisitions like this continue.

All of this makes it possible for Brookfield to pay an incredibly lucrative dividend. Currently, investors receive US\$0.4675 per quarter, which is good for a 5.35% yield.

But it gets better.

Management is looking to increase the annual distribution by 5-9% per year, and when you account for total capital appreciation, the company projects double-digit gains annually.

One factor that should contribute to this is the price per MWh Brookfield will be able to charge. Currently, it earns US\$64. However, by 2021, it expects that it'll be earning US\$77 per MWh. With the company adding more assets to its portfolio and boosting its cost per MWh, cash flow should only continue to rise.

For a long time, Brookfield stayed on the sidelines when it came to solar power. But with TerraForm's massive portfolio available for the taking, and US\$40 million of cash flow immediately added to the books, Brookfield finally got exposure.

CATEGORY

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