



Another Reason There Is Solid Growth Ahead for This Stock Yielding 5%

Description

The performance of one of the world's largest publicly listed renewable energy businesses **Brookfield Renewable Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)) in recent years has been disappointing for investors. Poor weather conditions and lower than expected water levels have weighed heavily on its ability to produce electricity because of its dependence on hydropower.

Nonetheless, Brookfield Renewable's latest transaction will help to reduce its dependence on hydro and give earnings a healthy boost.

Now what?

Just over a week ago, Brookfield Renewable announced the completion of the US\$656 million **TerraForm Power Inc.** (NASDAQ:TERP) deal. This has added 2,600 megawatts of solar and wind capacity located predominantly in the stable jurisdiction of the U.S. to its portfolio. Not only does that reduce Brookfield Renewable's dependence on hydro, but the deal is expected to be immediately accretive, adding US\$40 million annually to its funds flow from operations. That deal, while not transformative, will give earnings a solid boost over the remainder of the year and into 2018.

The good news for investors doesn't stop there.

The easing of climatic phenomena, such as the El Niño weather pattern, has helped to boost water levels in North and South America, which bodes well for the partnership's second-half 2017 earnings. This was reflected in Brookfield Renewable's second-quarter earnings, where total gigawatt hours generated for the quarter were just over 6% higher than the long-term average.

That was a surprising result because between 2012 and 2016, gigawatts hours produced were well below the forecast long-term average primarily because of poor water levels. The spike in electricity produced gave earnings a healthy boost, EBITDA popped by an impressive 21%, funds flow from operations went up by a massive 72%, and net income came in at US\$85 million compared to a US\$19 million a year earlier.

Not only will the TerraForm acquisition and improving water levels give earnings and cash flow a solid

bump, but Brookfield Renewable is still benefiting from the needle-moving US\$2 billion purchase of Colombia's third-largest power generation company Isagen S.A. in early 2016. That deal saw Colombia become responsible for ~40% of the total gigawatt hours produced by Brookfield Renewable.

It also gave the partnership a solid footprint in the rapidly modernizing Latin American country, which, in recent years, has undergone a tremendous transformation, as it shed decades of conflict and narco-trafficking. This has led to an explosion in economic activity, tourism, and manufacturing, which have all contributed to an ever-growing demand for electricity. Brookfield Renewable also stands to benefit from the efficiencies it has implemented in its operations, which have boosted profitability at the former state-owned enterprise.

So what?

It is not hard to see Brookfield Renewable finally unlocking considerable value for investors as improved water flows, the further diversification of its portfolio away from hydro, and greater efficiencies all interact to drive higher cash flow. That bodes well for bottom-line growth as well as the sustainability of its distribution and juicy 5% yield. It also means that there could very well be further distribution hikes on the way, with it already having increased its distribution for the last seven years. For these reasons, Brookfield Renewable should be a core holding in every portfolio.

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