



This Renewable Energy Stock Is Ready to Soar

Description

Poor hydrology and low water levels have weighed heavily on the performance of renewable energy provider **Brookfield Renewable Partners L.P.** ([TSX:BEP.UN](#))([NYSE:BEP](#)) in recent years. This is because 82% of the partnership's installed capacity of 16,400 megawatts is obtained from hydro-electricity generation.

However, there have been signs for some time that the partnership is turning its operations around and is poised to unlock considerable value for investors. The latest solid results indicate that Brookfield Renewable's business is improving at a rapid pace, which will see it unlock considerable value for investors.

Now what?

A key factor behind Brookfield Renewable's latest strong results has been a marked improvement in hydrology and water levels in the Americas. Power generation from its North American and Colombian hydro assets was above long-term average levels. This in conjunction with the partnership successfully deploying US\$625 million of equity from Brookfield Renewable's balance sheet to complete new deals and internal initiatives gave electricity generation, hence earnings, a healthy boost.

Brookfield Renewable's power generation for 2017 grew by an impressive 18.5% year over year to 23,968 gigawatts. As a result, adjusted EBITDA shot up by an impressive 21% to US\$1.1 billion, while funds flow from operations grew by a very respectable 39%.

Brookfield Renewable finished the year with over US\$1.5 billion in available liquidity, positioning it to continue making opportunistic and accretive transactions over the course of 2018. This includes funding the construction of a 30-megawatt hydro plant located in southeast Brazil, which will commence in 2018 and, on completion, further boost its power-generating capacity.

During the fourth quarter 2017, Brookfield Renewable and its partners completed the needle-moving US\$656 million **TerraForm Power Inc.** (NASDAQ:TERP) deal, which gave the consortium a 51% controlling interest in the diversified renewable power company. The partnership contributed US\$203 million to the deal to obtain a 16% interest in TerraForm.

The completion of the deal further diversified Brookfield Renewable's electricity-generating assets, adding solar to its portfolio, while boosting its exposure to wind power. Once the deal is bedded down, including integrating TerraForm's assets into Brookfield Renewable's existing operations, it is expected to boost its funds flow from operations by US\$40 million annually. That should give earnings a solid lift, particularly once synergies and efficiencies are recognized.

While poor hydrology remains a risk, having been responsible for Brookfield Renewable's lacklustre performances in 2015 and 2016, there are signs that the renewable energy company is poised to take off.

The push to combat global warming and bolster the proportion of the [global energy mix](#) generated by renewables is a powerful long-term tailwind. Brookfield Renewable's wide economic moat created by the steep barriers to entry for the renewable energy industry and the inelastic demand for electricity will help to shield it from competition as well as economic downturns.

The geographically diversified nature of its operations, which sees it operating across both [emerging](#) and developed markets, enhances its growth prospects.

You see, Brazil, which is responsible for 15% of its actual electricity generation, is emerging from what some analysts have described as its worst economic downturn ever. Brazil's gross domestic product (GDP) during 2017 grew by 1% compared to a contraction of 3.5% in 2016 and is forecast to expand at a healthy clip over the course of 2018 as well as 2019 of 3% and 3.9%, respectively.

There is a direct correlation between GDP growth and demand for electricity, which means that as Brazil's economy strengthens, there will be a significant uptick in the consumption of electricity, giving Brookfield Renewable's earnings a lift. A similar phenomenon is occurring in Colombia, which is responsible for 15% of the partnership's total power generation, where higher oil prices have helped to give that country's petroleum-dependent economy a boost.

So what?

These factors, along with the completion of the TerraForm acquisition, point to further strong earnings growth for Brookfield Renewable, which will ultimately lead to its stock appreciating. While investors wait for that to occur, they will be rewarded by its distribution yielding a tasty 6%. There is every sign that Brookfield Renewable's distribution will continue to grow; the solid 2017 results saw the partnership hike its distribution by 5%, which was its eighth consecutive annual increase.

For these reasons, Brookfield Renewable is an attractive play on the secular trend to clean electricity generation and deserves a place in every investor's portfolio.

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