Buy This Renewable Energy Company and Get its Growing Dividend

Description

There appears to be a move away from fossil fuels in favour of cleaner, renewable sources of energy. But how can investors benefit from this? Most energy companies are diversified; they own some renewable sources, but also own traditional energy generation sources.

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Brookfield Renewable Energy Partners LP (TSX:BEP.UN)(NYSE:BEP) is your best bet. This is a pure-play renewable energy company in the Brookfield family of companies. There are three reasons I believe investors should pick up Brookfield Renewable.

Business model

Brookfield deploys a fantastic business model that makes it great for capital appreciation and dividends, which we'll touch on shortly. At its core, Brookfield Renewable is a value investor, focusing on picking up major renewable energy assets that are beaten down for a variety of reasons.

It then operates those projects using internal resources to streamline operations and boost margins. This generates funds from operations, which is what gives the company the ability to pay its dividend.

However, like any value investor, there's some capital recycling. If an asset becomes worth a considerable amount of money, the company sells it, using the cash to then buy new assets.

Solar expansion

One example of Brookfield buying up major assets was the 51% acquisition of **TerraForm Power Inc.** (NASDAQ:TERP) and the complete takeover of TerraForm Global. The total cost for TerraForm Global was US$750 million, of which Brookfield Renewable invested US$230 million; a consortium of investors bought the rest.

This adds 952 megawatts of solar and wind to Brookfield Renewable's portfolio. Brookfield had historically avoided solar because there were no real value opportunities. For Brookfield to succeed, it needs to find assets that are a bit distressed. At the time, solar was in too much demand.

But when problems started to appear around TerraForm, Brookfield saw an opportunity. Specifically, the company would be able to reduce the operations & maintenance (O&M) costs, as TerraForm outsources 100% of the O&M, which came with costs that reduced margins.

Brookfield, on the other hand, operates with its own operations team. Brookfield CEO Sachin Shah stated, “We can run the assets, we can do the O&M in-house, we can reduce the cost structure of this business, and we can ultimately reposition it for growth in the future.”

I think this asset is going to be great for Brookfield and that other solar projects will show up over the coming years.

Dividend

The business model and its smart acquisitions allow Brookfield to pay a lucrative dividend. Brookfield reported its full-year 2017 earnings recently, announcing that it would be increasing the dividend by 5%.

Management projects yearly dividend increases of 5-9%. Last year, management increased the yield by 7%, so the company has been delivering on its promise for years now.

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As Brookfield continues to operate these businesses and generate strong funds from operations, new acquisitions give Brookfield the fuel needed to boost the dividend. The TerraForm Global deal is adding US$35 million of annual FFO to the run-rate basis, which will be passed off in dividends.

Ultimately, renewable energy is hot right now, and investors should therefore consider owning a piece of this company. Brookfield is likely the future of energy, and getting a yearly dividend increase is certainly nothing to say no to.

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