Forget About Oil: 1 Renewable Energy Stock for Long-Term Income and Growth

Description

The concerted rebound in oil, which sees the North American benchmark oil price West Texas Intermediate (WTI) trading at over US$70 a barrel, has attracted considerable attention to Canada's energy patch. While there certainly are a range of beaten-up oil companies that are poised to soar if higher oil remains in play for a sustained period, investors shouldn't allow it to distract them from the principles of successful investing.

The key is to invest for the long term in companies that possess wide economic moats, operate in oligopolistic industries with steep barriers to entry, and provide products or services that remain in demand no matter the state of the economic cycle. One company that stands out for all of these reasons and more while being attractively valued is **Brookfield Renewable Partners L.P.** (TSX:BEP.UN)(NYSE:BEP).

Now what?

Brookfield Renewable has languished for some time and failed to attract the same level of attention from investors such as stablemate **Brookfield Infrastructure Partners L.P.** because of its poor operational performance in recent years. There are signs, however, that all of this is changing, and the "magic touch," which investors have come to associate with Brookfield, will give the partnership's performance a solid boost.

The main challenge that faced Brookfield Renewable and impacted its performance was poor hydrology, leading to lower-than-forecast water levels because of its reliance on hydro power generation.

Nonetheless, its latest first-quarter 2018 results highlight that there has been a significant improvement in Brookfield Renewable's operational performance and that it is poised to unlock considerable value for investors.

The partnership's share of total power generation grew by 9% year over year to 6,694 gigawatt hours, which was 5% greater than the long-term average generation. That was driven by improved water levels; the partnership's North American hydro facilities generated power volumes which were 10%

greater than the long-term average for those assets.

This caused funds from operations to expand by a notable 16% compared to a year earlier, yet net income dropped to US$8 million, which was half of the first quarter in 2017. The marked increase in funds flow can also be attributed to greater revenues from inflation indexed pricing contracts, particularly in Brazil, where average realized pricing was 6% higher than a year earlier. Cost-reduction initiatives and the commissioning of 50 megawatts of installed capacity further helped to boost funds from operations.

The sharp reduction in net income can be blamed on increased interest costs as well as higher depreciation and amortization.

In fact, Brookfield Renewable is well positioned to deliver a strong performance over the remainder of 2018 and into the foreseeable future. The investment in **TerraForm Power Inc.** and TerraForm Global Inc. at the end of 2017 will drive greater earnings and has further diversified Brookfield Renewable's portfolio of renewable energy assets across wind and solar, thereby reducing its reliance on hydro.

More favourable weather conditions, which have caused water levels to improve, will also help Brookfield Renewable's hydro assets generate power equal to or greater than the forecast long-term average. Revenues from the partnership's Brazilian and Colombian operations will also improve, because both countries are experiencing greater demand for electricity.

These factors should drive higher revenues for the partnership going forward.

The long-term, inflation-linked power-purchase agreements that Brookfield Renewable has established, combined with steep barriers to entry and the inelastic demand for electricity, shield the partnership's earnings from economic downturns. These characteristics also virtually guarantee earnings growth, particularly in an environment where economic activity is expanding, because of the link between GDP growth and demand for electricity.

So what?

The relative security of Brookfield Renewable's earnings has allowed it to regularly hike its distribution for the last eight years with the most recent being a 5% increase at the end of 2017. That gives the partnership an appealing yield of just under 5%, and the likelihood of further increases is higher for the reasons discussed.

The secular trend to cleaner renewable sources of energy will act as a powerful tailwind for Brookfield Renewable's earnings. For all of these reasons, now is the time to invest.

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Date
2025/08/20
Date Created
2018/05/15
Author
mattdsmith