What the Canadian Pension Plan's Latest Deal Should Tell You About the Prospects for Renewable Energy

Description

Earlier this month, the Canadian Pension Plan Investment Board (CPPIB) announced a $1.75 billion deal with **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) that will see the two organizations form a 50/50 joint venture spanning several renewable energy projects.

On the one hand, the deal makes sense for Enbridge in that the company is effectively getting an upfront payment for its renewable assets.

The $1.75 billion cash payment that is expected to change hands some time later this year, potentially in the third quarter, will help Canada's largest pipeline company to rationalize some of the debt load that it accumulated as part of last year's Spectra acquisition.

The Spectra deal was a watershed move for the Calgary-based company that will go a long way to help establish it with a more diversified portfolio of assets that is less dependent on crude liquids and is now more balanced, taking advantage of Spectra's vast natural gas assets.

But it was also a move that cost the company $37 billion, and one that — at least in some analysts' opinion — put the company's 6.69% dividend in jeopardy.

The CPPIB deal, along with the announcement to sell a portion of its U.S. Midstream Business for $1.12 billion announced the same day, is part of the company's previously stated strategy to divest itself of non-core assets and, in doing so, free up capital for shareholders and its dividend.

But what does the move say about CPPIB's intentions and the prospects of renewable energy projects?

The fact that Enbridge is maintaining a significant stake in the assets that it is selling to CPPIB suggests that the firm still sees good long-term value in the projects and is, at least to some degree, unwilling to part with them.

And that CPPIB — a firm with a view towards stable, long-term investments — is looking to increase its foothold in renewable power assets could be an invaluable clue to investors that these types of investments could very well be expected to outperform over the long term.

In announcing the strategic partnership, Bruce Hogg, managing director and head of Power and Renewables for CPPIB said: “Through the joint venture, we will have the opportunity to grow our renewables portfolio across the European offshore wind market. As power demand grows worldwide, we will continue to seek opportunities to expand our power and renewables portfolio globally, helping to ensure the CPP Fund is well-positioned for the expected energy transition.”

Something worth thinking about

The deal between Enbridge and CPPIB is a marriage that makes sense for both parties.

Enbridge gets a cash payment upfront, which it can use to repay shareholders or alternatively invest in additional growth projects as it sees fit; meanwhile, CPPIB gets exposure to the underlying assets, while Enbridge maintains responsibility for the operations side of things.

One has to wonder if more deals of this kind could be on the way for some of Canada’s other renewable energy players, including, but not limited to, the likes of **Brookfield Renewable Partners LP** (TSX:BEP.UN)(NYSE:BEP), **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN), and **Northland Power Inc.** (TSX:NPI), which is owner already of an attractive portfolio of offshore European wind assets.

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