



1 Secular Trend That Will Cause This Stock to Soar

Description

What can only be described as one of the most [powerful secular trends](#) of all time, the global push to greater utilization of cleaner renewable sources of energy is gaining momentum, despite Trump quitting the Paris Agreement on global warming. Even China, which, in the past, has substantially relied on heavily polluting sources of energy, such as coal-fired electricity, has aggressively moved to improve air quality in its cities and transition to cleaner sources of energy.

China isn't the only developing nation focused on increasing the share of its energy needs produced by renewables. Latin American countries, including Colombia and Brazil, are focused on expanding the role of hydroelectricity to meet their power needs. Even in Canada, a number of provinces as well as the Federal Government have or are in the process of implementing policies aimed at transitioning electricity production to cleaner renewable sources of power.

This will be a powerful tailwind in coming years for renewable energy stocks such as **Brookfield Renewable Partners L.P.** ([TSX:BEP.UN](#))([NYSE:BEP](#)).

Now what?

There is already a shortage of power infrastructure globally, especially in many developing nations, where population growth and economic expansion is outstripping the ability of the national power grid to provide sufficient electricity. That is being magnified by the push to reduce reliance on fossil fuels and [remove thermal coal](#) from the global energy mix. This has been formally accepted in the framework of the Paris Agreement on climate change, which seeks to limit the global temperature increase to well below two degrees Celsius, above pre-industrial levels.

This isn't the only factor increasing the popularity of renewable energy. Costs in recent years have fallen significantly, and now renewable electricity is competitive with other forms of power generation.

According to research from asset manager Lazard, the unsubsidized, levelized cost of production for wind, solar, and hydro is cheaper than coal-fired or nuclear power generation per megawatt hour produced.

Importantly, while solar and wind lack the ability to provide a steady source of base-load power because of their intermittent nature, hydro is capable of doing so, and it is here where Brookfield Renewable stands out. This is because the majority of the partnership's electricity output comes from hydro.

It wasn't only improved water levels, notably in North America, that were responsible for the partnership's solid first-quarter 2018 performance; it has also engaged in a range of strategies to protect earnings and boosting profitability. Key among these is the majority of its revenue is derived from inflation-linked power contracts. In Brazil alone, which is responsible for producing almost a fifth of the partnership's electricity, average realized pricing for the quarter rose by 6% year over year, and that trend should continue for the foreseeable future.

You see, Brazil is emerging from what has been described as its worse economic slump in over a century, and there is a direct link between higher rates of GDP growth and demand for electricity. For 2018, Brazil's GDP is predicted to expand by up to 3%, or triple 2017 GDP growth, and analysts expect the rate of economic growth to rise even further in 2019 and 2020. That will give demand for electricity, and hence prices, a healthy lift, boding well for further earnings growth for Brookfield Renewable.

While an economic environment where interest rates are rising is bad news for most utilities, higher rates will have little impact on Brookfield Renewable. The partnership raised US\$1.5 billion during the first quarter and was able to reduce the average cost of its non-recourse debt to 5.8%. Furthermore, the majority of its projects and acquisitions have been financed using long-term fixed-rate debt, thereby significantly reducing the impact of higher interest rates on investment returns.

So what?

The secular trend to renewable sources of energy and a push by governments globally to reduce pollution bodes well for Brookfield Renewable and will act as a powerful tailwind for growth. When coupled with greater electricity generation and initiatives aimed at reducing costs, there is a long growth runway ahead for the partnership. While investors wait for that to translate into a higher share price, they will be rewarded by its sustainable distribution, which yields a juicy 5%.

CATEGORY

1. Dividend Stocks
2. Investing

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