



## Now Is the Time to Back Up the Truck for This 5% Yield

### Description

Higher interest rates have sparked concerns about the viability of investing in utility stocks, particularly those that are highly leveraged and lack mature operations. The failure of renewable electricity utility **Brookfield Renewable Partners L.P.** ([TSX:BEP.UN](#))([NYSE:BEP](#)) to [perform as expected](#) has weighed on its stock. For the year to date, the partnership's stock has lost over 6%, creating a handy entry point for investors, especially when its latest earnings and growth potential are accounted for.

### Now what?

Brookfield Renewable reported some solid operational second-quarter 2018 results, despite reporting a net loss of US\$2 million compared to a profit of US\$38 million a year earlier. Total power generation for the quarter was 13% higher year over year, although Brookfield Renewable's share fell by 4% compared to a year earlier.

A key reason for this was a decline in hydrology. Water levels in South America deteriorated marginally, while significantly lower rainfall in Ontario and New York impacted water levels and hence the volume of electricity generated. Poor hydrology caused power generation from Brookfield Renewable's North American hydro plants to fall by 18% compared to a year earlier and were 11% lower than the projected long-term average.

You see, the partnership is dependent on hydroelectric power generation, which accounts for 76% of the electricity it produces and 46% of its total installed capacity.

As a result, lower water levels in North America sharply impacted earnings, causing funds flow from operations to be 5% lower year over year, and were responsible for the US\$2 million net loss. This underscores poor hydrology, one of the key risks that can weigh on the business's performance, and it was the reason for the failure of its South American hydro operations to live up to their full potential in the past.

Nonetheless, a combination of forecast improvements in hydrology and moves to further diversify its portfolio renewable energy assets through the addition of wind and solar facilities will minimize the future impact of this risk.

During the second quarter, the partnership invested US\$420 million in **TerraForm Power Inc.** to boost its interest in the company from 16% to 30%. This investment was used by TerraForm to acquire **Saeta Yield S.A.**, a European renewable energy company that owns a 1,028-megawatt portfolio of solar and wind assets.

Brookfield Renewable also continued to develop an additional 160 megawatts of wind, hydro, and storage projects. It completed a 28-megawatt hydro project in Brazil, which is expected to add around US\$3 million to funds flow from operations annually. The business is also in the process of re-contracting the electricity output from its Brazilian and Colombian assets. This should see it lock in higher prices, thereby seeing those operations add up to US\$45 million to funds flow.

Each of these factors will give Brookfield Renewable's earnings a solid boost, allowing it to achieve the planned 12-15% annual long-term growth including an annualized 5-9% increase in distributions.

The partnership also finished the second quarter with a massive US\$1.7 billion in liquidity. This leaves it well positioned to make additional opportunistic acquisitions over the remainder of 2018, further boosting its long growth runway.

During the second quarter, Brookfield Renewable strengthened its balance sheet by completing US\$1.1 billion of refinancing initiatives, which reduced interest costs by 0.25% and extended the average maturity of its debt to over 10 years. This allowed it to reduce exposure to a key risk, [higher interest rates](#), by locking in low long-term rates in an operating environment where rates will rise further.

## So what?

Brookfield Renewable is the premier renewable energy investment available to investors, and it is well positioned to grow at a solid clip. Its solid portfolio of renewable assets, strong balance sheet, considerable liquidity, falling costs, and growth initiatives mean that it is well positioned to unlock value, particularly once hydrology improves. While investors wait for this to occur, they will be rewarded by its regular and sustainable distribution, which yields an impressive 5%.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)

## PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

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