



Now Is the Time to Double Down on This 5% Yield

Description

Among the easiest ways to achieve investing success is by identifying transformative changes that unfold over a long period — changes with the ability to disrupt existing industries or technology. These are known as secular trends. One of the most significant secular trends to emerge in recent times is the push to [renewable sources](#) of energy, which has seen coal-fired electricity fall into disfavour. This has been given [considerable momentum](#) by the Paris Climate Change Agreement, which took effect in 2016 and seeks to limit global warming to less than two degrees Celsius above pre-industrial levels.

This will be a boon for the world's largest publicly traded renewable energy companies like **Brookfield Renewable Partners L.P.** ([TSX:BEP.UN](#))([NYSE:BEP](#)). Because of recent disappointing results, its market value has plunged by 4% over the last year, and this has created an opportunity for investors.

Now what?

What makes Brookfield Renewable stand out in comparison to many of its renewable energy peers is its focus on hydro-electric power, which is responsible for 76% of its installed capacity. Because of the vast sums of capital required to develop operational facilities, and the potential damage they can do the environment, it has gradually fallen into disfavour. However, it is one of the most efficient and inexpensive forms of electricity generation. According to some scientific sources, it is up to 40% more efficient than fossil fuels and one-third the cost on average.

Nonetheless, Brookfield Renewable's dependence on hydro-power generation has led to its poor performance over previous years.

Hydro is highly dependent on water levels for electricity generation, and recent poor hydrology in the Americas has caused water flows to be lower than expected.

As a result, Brookfield Renewable's actual electricity generation has been less than the forecast long-term average impacting earnings, leading to disappointing financial results. The partnership, however, has been working on reducing its reliance upon hydro by diversifying its electricity generating assets.

The most significant development was Brookfield Renewable's acquisition of **TerraForm Power Inc.** It

recently invested an additional US\$420 million, upping its equity stake to 30%. TerraForm used that additional investment to acquire European wind and solar electric utility **Saeta Yield S.A.**, again reducing Brookfield Renewable's dependence on hydro.

Further, at the end of second quarter 2018, the partnership had five assets under construction, which upon completion between the end of 2018 and 2020 will add 159 megawatts of installed capacity to its portfolio. Of that additional capacity, 30% will be wind power, 31% hydro and the remainder from a pumped storage facility.

What makes Brookfield Renewable an attractive investment is that similar to any electric utility, most of its earnings are contractually locked in. For 2018 and 2019, 93% of its electricity output is contracted, which then falls to 79% in 2020. That helps to shield Brookfield Renewable from economic downturns, which along with the steep barriers to entry for electricity utilities and the inelastic demand for electricity, endows it with solid defensive characteristics.

When combined with Brookfield Renewable's growth prospects, this ensures that its regular quarterly distribution yielding almost 5% will remain sustainable and will support further increases.

So what?

Brookfield Renewable is an appealing opportunity for investors seeking a leading growth play on renewable energy that possesses solid defensive credentials and pays a regularly growing distribution. While hydrology or water flows are a key risk, the partnership has invested considerable capital in diversifying its portfolio as well as improving the efficiency of its hydro facilities to minimize the threat that poses to its earnings.

CATEGORY

1. Dividend Stocks
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1. NYSE:BEP (Brookfield Renewable Partners L.P.)
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