

A Safe 7% Yield: A Huge Gift From the Market

Description

Brookfield Renewable Partners ([TSX:BEP.UN](#))([NYSE:BEP](#)) stock fell as much as 6.5% on Wednesday and its yield pushed to almost 7.5% after the company reported its third-quarter results. It was nothing material but simply [market volatility](#), as the stock bounced to only about 2.5% lower from Tuesday's market close price by the end of the trading day on Wednesday.

Let's review the actual results.

Recent results

Brookfield Renewable generated funds from operations of US\$105 million, which was US\$0.33 on a per-unit basis. Even when normalized, they were US\$139 million and US\$0.44, respectively, which, at a glance, seemed insufficient to cover its cash distribution per unit of US\$0.49 for the quarter.

However, quarterly results can be bumpy due to hydrology and other weather conditions. So, it makes more sense to look at the business performance over a longer period.

The nine-month results of the year indicate much healthier results. Brookfield Renewable generated funds from operations of US\$470 million, or US\$1.50 per unit, which at least covered the cash distribution with a 98% payout ratio.

On a normalized basis, it would have been even more positive with funds from operations of US\$513 million, or US\$1.64 per unit, which implies a normalized payout ratio of below 90%.



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Brookfield Renewable's funds from operations — normalized or not — saw growth compared to the same three- and nine-month period in 2017. The same goes for the metrics on a per-share basis. Specifically, the nine-month normalized funds from operations increased by 7.3% and on a per-unit basis increased by 31.2%.

Ample liquidity for investment

Brookfield Renewable aims to sell US\$1 billion of mature or non-core assets this year to raise net proceeds of US\$850 million. As of the end of Q3, it is more than halfway through this process, and it has been able to capitalize on these assets at significantly higher valuations than where the stock is trading at today.

Via the asset sales, management estimates it will boost its available liquidity to US\$2.3 billion, which can be deployed in more attractive opportunities. For example, Brookfield Renewable is selling 50% interest in a 413 MW Canadian portfolio, which consists of three fully-contracted hydroelectric assets. It's also working on selling a 178 MW wind and solar portfolio in Africa.

In Q3, the team also managed to get cheaper financing by issuing a \$300 million bond at 4.25%, which was 1% lower than the corresponding maturing debt.

Investor takeaway

Brookfield Renewable aims to increase its cash distribution per unit by 5-9% per year. Although its payout ratio looks a bit stretched, management is cognizant of that and aims to reduce the ratio to about 70% in the long run. So, in the near term, unitholders are likely to experience dividend growth at the lower end of the range. Still, [the stock is absolutely perfect for income-hungry investors](#).

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