



1 Top Renewable Energy Stock to Hedge Against a Market Correction

Description

Fears of a [market correction](#) remain because of the considerable uncertainty regarding the global economic outlook. This has pushed the price of [gold higher](#), as investors bolster their exposure to defensive assets. While, traditionally, gold has long been the main viable means of shielding your portfolio against a downturn, one stock that stands out for this purpose is **Brookfield Renewable Partners** ([TSX:BEP.UN](#))([NYSE:BEP](#)).

Solid defensive credentials

Electric utilities are typically perceived to be top defensive stocks because of their wide moats, the contracted nature of their earnings, and inelastic demand for electricity. While many electric utilities are grappling with how to future-proof their operations because of the push to significantly boost the amount of electricity generated by renewable sources, Brookfield Renewable's isn't facing this problem.

The partnership, which has 17,400 megawatts (MW) of installed capacity, generates 76% of its electricity from hydro and the remaining 24% from a mix of wind and solar.

While hydro is one of the most reliable sources of renewable or clean energy, the significant amount of environmental damage caused by the construction of large-scale dams and associated political baggage makes it almost impossible to construct new large-scale projects. For this reason, Brookfield Renewable is uniquely positioned as one of the few large scale publicly listed owners of hydro assets.

Importantly, unlike solar or wind, hydro can provide a reliable source of baseload power, which is a critical part of any reliable electricity grid. The unpredictable nature of solar and wind power has been a key drawback in their adoption. This established presence with a focus on hydro power reinforces Brookfield Renewable's already wide economic moat.

Because 87% of the partnership's cash flows come from contracted sources, its earnings are almost guaranteed, further enhancing its defensive characteristics.

The only risk is that poor hydrology can have a sharp impact on Brookfield Renewable's electricity

output, which causes earnings to fall. This has negatively affected the partnership's financial performance in the past, as the impact of various climate-related phenomena has caused rainfall and hence water levels to fall.

Nonetheless, for 2018, Brookfield Renewable reported actual power generation of 52,056 gigawatt hours (Gwh), which exceeded the long-term average. This can be attributed to a combination of improved water flows and the partnership expanding the proportion of its portfolio comprised of solar- and wind-generating assets.

As a result, Brookfield Renewable reported 2018 net income of US\$42 million compared to a US\$56 million loss a year earlier. That, coupled with free funds flow from operations (FFO) rising by a healthy 14% year over year, saw Brookfield Renewable hike its quarterly distribution by 5%, giving it a tasty forward yield of 6.5%.

Aside from being a solid income-producing, defensive stock, Brookfield Renewable also possesses substantial growth potential. Unlike many traditional electric utilities, it owns and operates a globally diversified portfolio of clean energy assets with 60% of its power-generating capacity located in North America, 20% in Brazil, 15% in Colombia, and the remainder spread between Europe and Asia. That means it can benefit from the stable earnings produced in developed markets like Canada and the U.S. while prospering from the greater rates of growth associated with emerging markets.

In fact, there is a direct correlation between electricity consumption and economic expansion, which will drive greater demand for Brookfield Renewable's output in Colombia and Brazil with both nations' economies having returned to growth.

Colombia, where the partnership's portfolio is responsible for supplying around a fifth of all electricity consumed nationally, is expected to experience 2019 GDP growth of 3.6%, whereas Brazil's economy will expand by 2.4%. That not only bodes well for greater consumption but also for the business to lock in higher prices for the electricity it produces as demand rises.

Brookfield Renewable's installed capacity will continue to grow with it in the process of developing four projects located in Brazil, China, and North America with a combined capacity of 151 MW. These are expected to be commissioned somewhere between the start of 2019 and the end of 2021.

The partnership recently completed a successful \$150 million capital raise aimed at strengthening its balance sheet, improving liquidity, and reducing debt.

Why buy Brookfield Renewable?

Brookfield Renewable provides investors with a unique mix of defensive and growth characteristics across a globally diversified portfolio of assets. When this is coupled with a proven history increased earnings and that juicy 6% plus distribution, it is a stock that should be a core holding in every portfolio.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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