



TFSA Investors: Invest for the Future With This Renewable Energy Stock

Description

The world is in a long-term shift that will be one of the largest and most important of all time. As we move away from fossil fuels, other opportunities become available to investors. Renewable energy is the way of the future, and the move toward greener technology will become even more important as global warming and climate change continue to affect us.

In last five years, it's estimated that \$1.5 trillion has been invested in renewable assets — about 17% hydro, 47% solar, and 35% wind. In that same period, over one million megawatts of new renewable capacity — 20% hydro, 42% solar, and 33% wind — has been created.

One company that is a top stock in the renewable sector is **Brookfield Renewable Partners** ([TSX:BEP.UN](#))([NYSE:BEP](#)).

Brookfield is a leading renewable energy company operating on five continents. It's a large well-respected company with an impressive track record delivering average annual returns of 15% to shareholders. The company has assets in wind, solar, and hydro, as well as having a distributed solar-generation business and a storage business. Currently, 80% of funds from operations (FFO) come from the hydro business, which has over a third of the company's capacity.

The company has four main objectives going forward. Firstly, it will look for unique hydro opportunities, leveraging its scale. It also wants to continue to invest in wind and solar. Finally, it wants to continue to build out its operating expertise. Brookfield plans to continue to globalize its businesses as well as maintain financial discipline and an investment-grade balance sheet.

It targets and has delivered 12-15% long-term total returns. It's able to generate these large returns consistently because of its impressive strategy of investing on a value basis, increasing margins through the company's operational experience and expertise, and using capital discipline to its advantage.

Management expects FFO-per-unit growth can grow up to 11% in the next few years by a combination of margin expansion (mostly through cost savings), developments that are in the pipeline, and inflation adjustments embedded into long-term contracts to lock in an escalation in price. All in all, that could

mean up to \$300 million in increased FFO.

Past performance has been impressive. In the last six years, management has delivered 7% FFO-per-unit growth. Brookfield expects it can conservatively increase its minimum estimate for future FFO growth to 8.5%.

One reason it can expect such grand increases is because existing cash flows come from attractive assets and are very stable. Its portfolio is largely made up of assets that are perpetual, requiring little maintenance. The hydro assets, for example, make up 80% of FFO and have an average remaining life of over 75 years.

The company is also well hedged to interest rates by having most of its debt in fixed-term maturities as well as currency hedging due to the many operations across the world. Nonetheless, it still trades like the other [interest sensitive](#) stocks, so it has seen its share rise the last few weeks, on the changed sentiment in the chances of central bank rate hikes in Canada and the U.S.

It just recently did a 50/50 joint venture deal in X-ELIO worth approximately \$500 million. This is a great step for the company toward increasing its solar assets globally and should present a great growth opportunity.

The company has also been increasing its exposure to India more recently, as it believes that assets there are beginning to look attractive from a valuation standpoint. Because of Brookfield's solid capital discipline, it has the ability to provide capital when others can't, giving it better deal flow.

It has nearly tripled its capacity in the last five years and now has total capacity of over 17,400 MW. It has a 20-year track record in renewables, delivering 15% annualized returns. The company is an exceptional investment because it has the proven Brookfield model, with operating experience that it can scale. Combine this with solid value investments in quality assets, gives it the ultimate package. Furthermore, it yields an attractive 6% dividend which looks to be stable.

Stay hungry. Stay Foolish.

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