Warren Buffett Is Betting on Wind Power: Should You?

Description

Warren Buffett's Berkshire Hathaway Energy (BHE) will start building a 117.6 MW wind farm in Alberta next year. It's a $200 million bet from the world's most famous investor in a sector of the energy market that is often overlooked.

When it comes to renewable energy, most investors tend to focus on solar panels or hydroelectricity. However, wind power has become one of the cheapest sources of energy on the planet.

In 2017, Alberta's provincial government secured 600 MW of wind energy capacity at a weighted average price of only 3.7 cents per kilowatt hour (kWh). On a global scale, on-shore wind power now costs roughly US$0.06 per kilowatt hour (kWh). Compare that to the global average cost of fossil fuels, which ranges from US$0.05 to US$0.17 per kWh.

Not only is wind getting cheaper, but regulations and public perception are pushing the adoption of renewables further. Corporations are now willing to sign long-term agreements to purchase renewable energy on an ongoing basis to meet local emissions regulations and to position themselves as climate conscious to consumers.

Buffett's planned Alberta wind farm, for example, already has a "long-term power-purchase agreement" with a "large Canadian corporate partner" for most of the energy produced. In other words, it's such a good business that it's already profitable before being built.

For local investors, there couldn't be a better time to invest alongside the Oracle of Omaha in Canada's emerging clean energy sector. Here are the top two options.

TransAlta

With 21 wind farms spread across North America, **TransAlta Renewables** (TSX:RNW) is probably one of the largest clean energy companies in the country. According to its latest report, 46% of cash flow can be attributed to wind power generation.

Backed by a larger parent organization, the company has enough resources to keep expanding its network of clean energy production facilities. In fact, it already has a few natural gas sites in Australia and is planning to spend billions in transitioning Alberta's energy production away from coal over the next few years.

The stock is up over 32% year to date and still offers a hefty 6.8% dividend yield. Management is also expected to spend millions in stock repurchases and reduce debt levels over the next few years.

At the moment, the stock trades at a little over 12 times expected free cash flow in 2019. That seems reasonable when you consider the high yield and 5% average growth rate of dividends over the past few years.

Brookfield

Another option for investors seeking exposure to renewable assets is **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP).

Backed by the country's largest and most efficient asset managers, this firm has deployed a jaw-dropping $50 billion in renewable energy production facilities over the past five years. That level of capital deployment isn't easily matched, which gives Brookfield an enduring competitive advantage.

At the moment, roughly 22.7% of the company's generation capacity is derived from wind farms spread across four continents.

Since 2012, funds from operations (FFO) have expanded at an annual compounding rate of 10%. This year, the stock is up 54% and is still trading at roughly 22 times FFO per unit. The company pays out most of its free cash flow every year, resulting in a 5% dividend yield.

In other words, investors willing to pay a higher premium for a more diversified portfolio should pick Brookfield's renewable subsidiary over TransAlta's clean energy stock.

CATEGORY

1. Energy Stocks
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TICKERS GLOBAL

1. NYSE:BEP (Brookfield Renewable Partners L.P.)
2. TSX:BEP.UN (Brookfield Renewable Partners L.P.)
3. TSX:RNW (TransAlta Renewables)

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