Up 80% in 1 Year, How Far Can Brookfield Renewable (TSX:BEP.UN) Stock Go?

Description

Arguably one of the most well-recognized brands in the country, **Brookfield** has managed to create several assets for investors seeking exposure to different sectors. From office properties to infrastructure funds, income-seeking investors know this is best name in the money management business. Recently, one of its best-performing subsidiaries has been green energy giant **Brookfield Renewable Partners** (TSX:BEP.UN)(NYSE:BEP).

Investors in Brookfield Renewable have seen an 80% gain over the past 12 months. The stock now trades at an all-time high. But has it overshot its underlying value, or does the team have plenty of room to expand and justify its premium valuation? Here's a closer look.

Green energy's immense opportunity

The energy transition is probably one of the largest economic shifts in recent memory. Experts estimate that the market for clean energy could be worth as much as $1.5 trillion by 2025. Over the next decade, the opportunity is even larger.

While climate change and cost considerations are driving factors, much of this industry is being pushed by regulations. A number of countries have promised to lower their carbon footprint and adopt renewable energy as a bigger portion of their overall energy mix by 2030. However, Brookfield estimates that many cities and provinces are far behind their targets and coal or gas still accounts for 45% of energy consumption in North America and Europe.

In other words, Brookfield operates in a market worth trillions and has plenty of room to expand. At the moment, the company's assets total over 18,000 MW capacity, derived from a combination of wind, solar, and hydro. That makes it one of the largest green energy providers in the world.

Brookfield's valuation

At first glance, it may seem as if investors have already priced in the immense size of this market and Brookfield's potential runway for growth. The stock currently trades at twice its book value per share. The trailing price-to-earnings (P/E) ratio is 102, while the forward P/E ratio is 135, which indicates lower earnings next year.

Those hefty valuations indicate an overpriced stock. However, on closer inspection, the stock looks a lot more attractive.

Firstly, the 5% dividend yield is well supported by fundamentals. The company generates enough levered free cash flow to cover the annual dividends more than two times over. Also, let's not forget the fact that this is a company supported by one of the world's largest asset management firms. Brookfield Asset Management owns 60% of all outstanding shares and has plenty of resources to support the business.

The valuation also seems attractive if you swap out net income for levered free cash flow. Over the past 12 months, Brookfield Renewable generated $825 million in levered free cash flow, while its current market capitalization is $10.8 billion, which indicates a price-to-free cash flow ratio of 13. That seems reasonable to me.

Bottom line

Brookfield Renewable stock is up 80% over the past year, but considering the strength of its balance sheet and the immense market size of green energy, the stock still has plenty of upside left.

BEP may be an excellent opportunity for any value-oriented investor with a long time horizon.

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