Why Did Brookfield Renewable (TSX:BEP.UN) Stock Fall 29%?

Description

Brookfield Renewable Partners LP (TSX:BEP.UN)(NYSE:BEP) is a special stock. For two decades, the company has delivered double-digit annual growth despite operating a low-risk business model.

While this stock rarely drops in price, the recent market crash pulled shares down by nearly 30%. If you want to bet on a growth opportunity that will last for *decades*, Brookfield Renewable shares should top your buy list.

Renewable energy is very profitable

We're at a tipping point. Legacy fuels like coal and oil are on the way out. Renewable fuels like solar and wind are taking over. This transition isn't based on environmental concerns. This is pure, unadulterated economics.

Let's run the numbers. In 2014, natural gas generation cost roughly $50 per MWh. Onshore wind that year cost around $100 per MWh, with solar at $125 per MWh.

The price of renewables is driven by technology. Better blades reduce the cost of wind. More efficient panels lower the cost of solar. Every year, the technology improves, meaning costs fall consistently over time.

Today, natural gas power costs roughly $50 per MWh. Solar has narrowed the gap, coming in at $55 per MWh. That's a 60% price reduction in six years! Technological improvements for wind have brought prices down to $40 per MWh, *cheaper* than natural gas. Over the next 24 months, *Bloomberg* expects both solar and wind prices to fall below the cost of natural gas.

The energy transition will take time. If a power plant is already constructed, its variable operating costs will be low. But for new generation facilities, an increasing amount of capital will be dedicated to renewables. Within a few years, nearly *all* capital will go towards renewables.

Owning a renewable energy power plant can be very profitable. Generation from year to year is highly predictable. The cost of production, meanwhile, is close to $0. After all, sun and wind are free, providing clear cash flow visibility and also preventing new competitors from moving in.

For this reason, Brookfield has been able to fully contract many of its facilities. Its Spanish renewable assets, which include 1,028 megawatts of solar and wind production, have 100% contracted cash flows. This ensures downside protection and almost certain profitability.

Stick around for a while

The renewable energy boom will be large, and the opportunity will last for years. Brookfield Renewable isn't a stock you want to own for a few months. It's a stock you want to own for a few *decades*.

In the past five years, $1.5 trillion has been invested in renewables worldwide — a sum that surpassed most predictions from 2015. The future should see even faster adoption.

Over the next five years, *Bloomberg* anticipates $5 trillion in global renewable energy investment. Over the next decade, the total investment should exceed $10 trillion. This is one of the biggest growth markets in history.

Brookfield Renewable is keeping up with the accelerated pace. From 2009 to 2013, it invested roughly $1 billion to grow its portfolio. From 2014 to 2019, it invested $3.5 billion. Plans for the decade ahead are even more aggressive.

By continuing its proven strategy, the company aims to generate annual returns for shareholders between 12% and 15%.

Given the size and speed of the opportunity, these targets shouldn't be a problem. Nearly two decades of history proves that the company is capable of delivering.

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