



The Best Canadian Stock to Fight a Coronavirus Recession

Description

There is considerable speculation that the economic slump will turn into a recession deeper and longer than the Great Recession of just over a decade ago. If that occurs, companies with strong [defensive characteristics](#) will become popular. Among the top-rated defensive stocks are utilities, notably those that generate electricity.

A combination of inelastic demand for electricity, steep industry barriers to entry and significant regulation protects electric utilities from competition and virtually assures their earnings.

Those characteristics make them highly appealing stocks to hold during a market crash and economic crisis. Renewable energy utilities possess the best combination of defensive characteristics and growth potential, while contributing to the development of a more sustainable society.

My top renewable energy stock is **Brookfield Renewable Energy Partners** ([TSX:BEP.UN](#))([NYSE:BEP](#)). The partnership plunged sharply during the initial market to be down by 27% since the start of 2020, but after rallying over the last two weeks, its stock has gained 6%.

Strong fundamentals

Similar to traditional electric utilities, Brookfield Renewable possesses a wide economic moat that defends it from competition and protects its earnings. The security of its earnings is further enhanced by the inelastic demand for electricity, as well as the industry's strict regulation and lofty barriers to entry.

Those characteristics have allowed Brookfield Renewable to secure favourable contractual terms for the electricity it generates.

The agreements to purchase the electricity it produces have an average weighted duration of 13 years. Brookfield Renewable receives 95% of its cash flow from contracted or regulated sources. Many of those contracts are inflation-linked, meaning that the revenue generated will increase over time, further boosting Brookfield Renewable's earnings.

The partnership is also conducting a re-contracting initiative in Colombia and Brazil, which involves extending the life of existing contracts and increasing the rates charged for the electricity produced. This will bolster the certainty of Brookfield Renewable's earnings, while boosting profitability and earnings.

Powerful secular tailwind

Brookfield Renewable not only possess solid defensive characteristics, but also considerable long-term growth prospects — key being that renewable energy is expanding at a rapid clip, which will serve as a very powerful long-term secular tailwind. By the end of 2019, global renewable energy capacity hit a record level.

More important, almost 75% of all new electricity generating capacity added in 2019 was from renewable sources. Data from the International Renewable Energy Agency (IRENA) shows that renewable electricity now provides one-third of the electricity generated globally.

Demand for renewables will grow at a rapid clip because of the ongoing push to limit global warming and climate change.

At the end of 2019, Brookfield Renewable had seven projects under development with a combined installed capacity of 717 megawatts. Those assets are expected to be operational between the end of first quarter 2020 and the second quarter 2021. Once commissioned and operational, they will boost Brookfield Renewable's electricity output as well as earnings.

Looking ahead

Brookfield Renewable is a very attractive stock to own in the current [harsh operating environment](#). Demand for electricity will remain firm despite the coronavirus pandemic and any resulting recession. Coupled with the highly regulated and contracted nature of Brookfield Renewable's revenue, that will protect its earnings and bottom line.

Once the pandemic is brought under control and the economy returns to growth, Brookfield Renewable's growing electricity output combined with measures to boost profitability will lift earnings.

For these reasons, Brookfield Renewable's targeted 12% to 15% total long-term returns is achievable, as are the planned 5% to 9% annual distribution hikes. Over the last decade, the partnership has delivered considerable value for unitholders.

If you had invested \$10,000 in 2010, it would now be worth \$38,866 after including distributions — a monster 289% return or an impressive compound annual growth rate (CAGR) of 14.5%.

While waiting for Brookfield Renewable to rally, patient investors will be rewarded by its distribution

yielding just under 5%.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

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

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