



Forget Oil Stocks: Buy This Instead

Description

Oil stocks are hurting. Just look at **Exxon Mobil Corporation**, widely regarded as the highest-quality business in the industry. Shares are down more than 30% since the year began. The stock price is back to levels not seen since 2004!

The stock market is starting to notice. Value investors are clamoring to buy blue-chip oil stocks at a multi-decade lows. Dividend investors are salivating at the juicy dividends. Exxon, for example, now yields 7.8%. Even growth investors are getting involved, betting that oil prices could double or triple from today's depressed levels.

Should you join the crowd and buy oil stocks?

Hold your horses

The future is decidedly *not* bright for oil stocks. Population growth has slowed to a crawl across many regions of the earth. In some developed countries, many of which represent huge demand drivers for energy, populations are actually *decreasing*.

Combine a shrinking population with the advent of renewables and we get a bleak picture for long-term oil [demand](#).

The supply side of the equation is no brighter. Oil prices originally collapsed in 2014 following the rise of cheap U.S. shale production. Breakeven prices plummeted. Suddenly, a vast number of projects could produce profitably at prices below US\$30 per barrel. Oil sands projects in Canada only contributed to the glut.

Over the next few years, oil majors like Exxon and **Chevron Corporation** want to develop mega-projects with breakevens as low as US\$15 per barrel. That's a level unheard of outside oil-rich nations like Saudi Arabia.

While the next few decades will be [bumpy](#), we'll likely see a slowdown in demand with continued

supply surges. These factors will keep oil prices low for the foreseeable future. That's bad news for oil stocks.

If you want to bet on energy but don't want these long-term challenges working against you, the choice is clear.

Replace oil stocks with this

The downturn of any industry almost always results in the upturn of another industry. The demise of horse travel fueled the rise of the automobile. Falling paper consumption has been paired with a dramatic rise in electronic media consumption. For energy, the long-term fall of oil will be coupled with an equally impressive increase in renewable energy demand.

Over the last five years, *Bloomberg* estimates that \$1.5 trillion was invested in renewable energy deployments. The next five years of investment will experience \$5 trillion in investment. Clean energy spending should surpass \$10 trillion cumulatively in the decade to come.

All of this capital spending will be a direct hit to oil stocks, but it's a boon for renewable asset owners like **Brookfield Renewable Partners LP** ([TSX:BEP.UN](#))([NYSE:BEP](#)).

Brookfield already owns more than \$50 billion in clean energy assets. Its portfolio is diverse, spanning hydro, wind, solar, and battery storage projects. Better yet, the company has a proven track record of success. Management aims for annual returns between 12% and 15%. For two decades, the company has *exceeded* that aggressive benchmark.

What makes Brookfield such a great bet versus oil stocks? Oil companies need to generate returns from legacy assets, many of which are decades old. Brookfield is dealing with a blank slate. It can position itself for the future energy landscape, not the past.

The company is particular adept at early stage projects where the risk-return profile is asymmetric. For example, it recently bought Spanish renewable assets on the cheap thanks to regulatory uncertainty. Yet the project has 100% contracted cash flows, mitigating the downside potential.

Brookfield's management anticipates its growth runway to last several decades. It's time to ditch oil stocks and invest in a company prepared for the century to come.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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