Brookfield Renewable Partners (BEP)

Updated November 19th, 2018 by Aristofanis Papadatos

Key Metrics

Current Price:	$28	**5 Year CAGR Estimate:**	13.0%	**Volatility Percentile:**	14.7%
Fair Value Price:	$28	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	20.7%
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Growth Percentile:**	48.5%
Dividend Yield:	7.0%	**5 Year Price Target**	$38	**Valuation Percentile:**	51.6%
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Total Return Percentile:**	75.9%

Overview & Current Events

Brookfield Renewable Partners L.P. operates one of the world's largest portfolios of publicly-traded renewable power assets. Its portfolio consists of over 17,000 megawatts of capacity and 843 generating facilities in North America, South America, Europe, and Asia. Brookfield Renewable Partners is one of four publicly-traded listed partnerships that is operated by Brookfield Asset Management (BAM). The others are Brookfield Property Partners (BPY), Brookfield Infrastructure Partners (BIP), and Brookfield Business Partners (BBU). Brookfield Energy Partners trades with a market capitalization of US$8.6 billion and is cross-listed on the New York Stock Exchange and the Toronto Stock Exchange, where it trades under the tickers 'BEP' and 'BEP.UN', respectively. Despite operating as a Canadian company, Brookfield Energy Partners reports financial results in U.S. dollars. All figures in this report refer to its NYSE stock listing and are denominated in U.S. dollars.

In late October, Brookfield Renewable Partners reported (10/31/18) financial results for the third quarter of fiscal 2018. In the quarter, the company's share of actual generation increased by 6.8% while its long-term average generation capabilities (which represents how much electricity would be generated if all of the company's assets generated electricity at their long-term average levels) increased by 17.9%. Normalized funds from operations per unit increased by 17.9% while Brookfield reported a net loss per unit of $0.18, which was wider than the loss of $0.14 per unit reported in last year's quarter. The earnings-per-unit look disappointing due to the high depreciation amounts that result from investments in renewable power, so investors should pay more attention to the funds from operations.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
FFOPS[1]	---	---	---	$1.65	$1.31	$2.24	$2.07	$1.69	$1.45	$1.90	***$2.00***	***$2.68***
DPS	---	---	---	$1.31	$1.38	$1.45	$1.55	$1.66	$1.78	$1.87	***$1.96***	***$2.62***
Shares	---	---	---	262.5	265.3	265.3	271.2	275.6	288.7	311.8	***312.6***	***320.0***

Due to deceleration in the performance of Brookfield Renewable Partners in the third quarter, we have revised our FFO per unit estimate for this year from $2.40 to $2.00. Beyond that, we believe that the track record of the Brookfield companies means that Brookfield Renewable Partners is likely to achieve its objective as a publicly-traded partnership: *"Its investment objective is to deliver long-term annualized total returns of 12%-15%, including annual distribution increases of 5-9% from organic cash flow growth and project development."* Given Brookfield Renewable Partners' 7% yield, we believe that investors can expect organic growth to contribute around 6% to the partnership's annualized returns moving forward.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/FFO	---	---	16.2	22.4	11.7	14.9	15.5	20.5	18.4	***14.0***	***14.0***
Avg. Yld.	---	---	4.9%	4.7%	6.9%	5.8%	6.3%	6.0%	5.4%	***7.0%***	***6.9%***

[1] We use normalized funds from operations where applicable.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Brookfield Renewable Partners has traded at an average price-to-FFO multiple of 17.0 over the last decade. We believe that this valuation is rich for the company given comparable valuations among its peer group (and its cousins in the Brookfield family of companies). Instead, we believe a price-to-FFO multiple of 14 is reasonable for this stock. As it is now trading at exactly this level, we do not expect meaningful gains from change in its valuation over the next five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

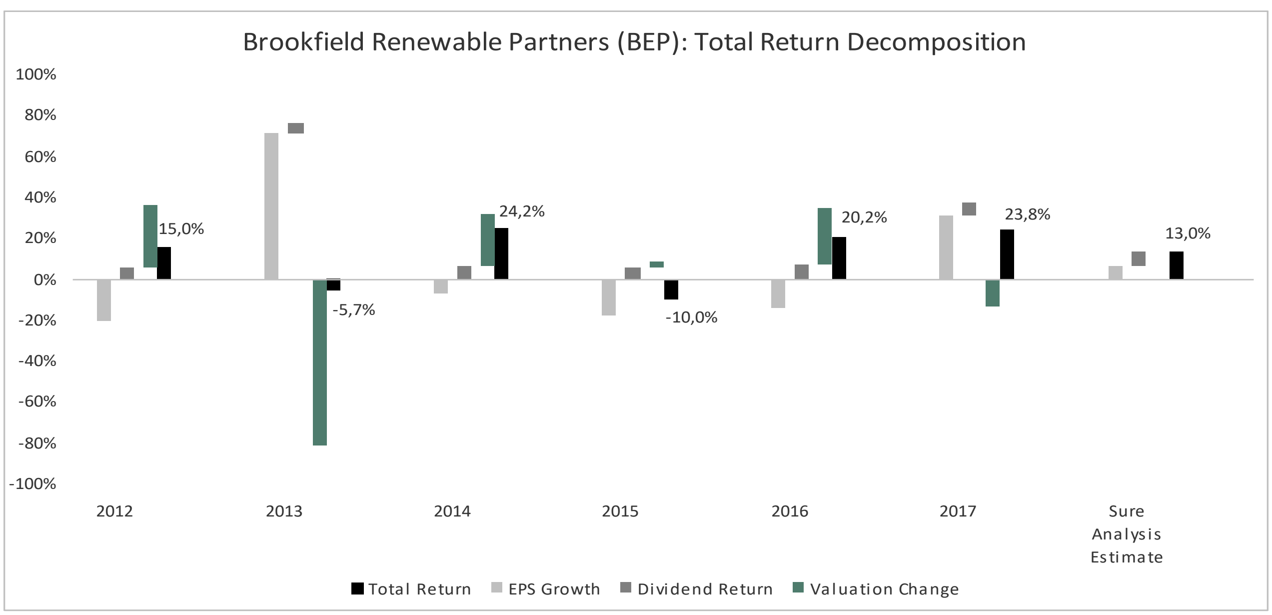
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	-3.3%	-2.1%	5.4%	5.0%	5.0%	6.9%	5.9%	5.5%	5.1%	5.3%	***6.0%***	***5.0%***
Liab./A	69.7%	73.4%	62.6%	54.2%	53.9%	55.7%	55.3%	55.1%	54.3%	53.8%	***55.0%***	***55.0%***
Int. Cov.	-2.5	-3.0	1.8	-0.2	0.7	1.6	1.5	1.2	1.0	1.3	***1.4***	***1.5***
Payout[2]	---	---	---	79.4%	105%	64.7%	74.9%	98.2%	123%	98.4%	***98.0%***	***97.8%***
Std. Dev.	---	19.3%	16.8%	20.7%	15.0%	13.8%	12.1%	17.6%	19.7%	11.2%	***19.0%***	***19.0%***

Brookfield Renewable Partners has a low ratio of gross profit to assets, which is typical for companies that invest in renewable power assets. It also hardly covers its interest expense and is thus exposed to unexpected headwinds. Still, we believe that it benefits from Brookfield's various competitive advantages, which include a global operating presence, a long and successful track record of owning and operating real assets, and a skilled management team.

Final Thoughts & Recommendation

Brookfield Renewable Partners is one of the largest and most successful pure-play investment vehicles in the world of renewable energy. Thanks to its recent correction, it is now offering a 7.0% dividend yield and thus it can offer a 13.0% average annual return over the next five years. As a result, Brookfield Renewable Partners earns a buy recommendation from Sure Dividend at current prices. But, investors should note that Brookfield Renewable Partners is *highly leveraged*, and has a very high payout ratio. Unforeseen headwinds could cause a reduction in the company's dividend.

Total Return Breakdown by Year



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[2] Using funds from operations.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	N/A	N/A	N/A	1188	1325	1706	1704	1628	2452	2625
Gross Profit	N/A	N/A	N/A	793	839	1176	1180	1076	1414	1647
Gross Margin	N/A	N/A	N/A	66.8%	63.3%	68.9%	69.2%	66.1%	57.7%	62.7%
SG&A Exp.	N/A	N/A	N/A	13	36	41	51	48	62	82
D&A Exp.	N/A	N/A	N/A	468	483	535	548	616	781	782
Operating Profit	N/A	N/A	N/A	312	320	600	581	429	571	783
Operating Margin	N/A	N/A	N/A	26.3%	24.2%	35.2%	34.1%	26.4%	23.3%	29.8%
Net Profit	N/A	N/A	N/A	-451	-20	215	-145	3	-21	-4
Net Margin	N/A	N/A	N/A	-38.0%	-1.5%	12.6%	-8.5%	0.2%	-0.9%	-0.2%
Free Cash Flow	N/A	N/A	N/A	283	51	509	514	303	263	573
Income Tax	N/A	N/A	N/A	-42	-40	1	-11	-60	-53	88

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	N/A	N/A	N/A	15708	16925	16999	19849	19507	27737	30904
Cash & Equivalents	N/A	N/A	N/A	267	137	203	150	63	223	799
Accounts Receivable	N/A	N/A	N/A	158	106	105	91	98	262	360
Goodwill & Int. Ass.	N/A	N/A	N/A	57	N/A	74	N/A	0	896	901
Total Liabilities	N/A	N/A	N/A	8508	9117	9463	10968	10744	15065	16622
Accounts Payable	N/A	N/A	N/A	190	207	31	29	43	87	117
Long-Term Debt	N/A	N/A	N/A	5519	6119	6623	7678	7338	10182	11766
Shareholder's Equity	N/A	N/A	N/A	6571	6780	0	3167	2955	6452	7310

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	N/A	N/A	N/A	-3.0%	-0.1%	1.3%	-0.8%	0.0%	-0.1%	0.0%
Return on Equity	N/A	N/A	N/A	-11.4%	-0.3%	6.3%	-9.2%	0.1%	-0.4%	-0.1%
Shares Out.	N/A	N/A	N/A	262.5	265.3	265.3	271.2	275.6	288.7	311.8
Revenue/Share	N/A	N/A	N/A	8.94	9.97	12.84	12.28	11.36	15.68	15.13
FCF/Share	N/A	N/A	N/A	2.13	0.38	3.83	3.70	2.11	1.68	3.30

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.