Brookfield Renewable Partners (BEP)

Updated November 12th, 2019 by Aristofanis Papadatos

Key Metrics

Current Price:	$43	**5 Year CAGR Estimate:**	7.1%	**Volatility Percentile:**	16.1%
Fair Value Price:	$36	**5 Year Growth Estimate:**	6.0%	**Momentum Percentile:**	98.6%
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.3%	**Growth Percentile:**	57.7%
Dividend Yield:	4.8%	**5 Year Price Target**	$49	**Valuation Percentile:**	30.9%
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Total Return Percentile:**	43.0%

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 880 generating facilities in North America, South America, Europe, and Asia. Brookfield Renewable Partners is one of four publicly-traded listed partnerships that are 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$14 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 mid-November, Brookfield Renewable Partners reported (11/11/19) financial results for the third quarter of fiscal 2019. The company's share of actual generation fell 6.1% while its long-term average generation capability (which represents how much electricity would be generated if all of the company's assets generated electricity at their long-term average levels) decreased -2.3% due to asset sales. The company sold two mature European wind portfolios for $186 million and achieved an 18% compounded annual return since acquisition. Normalized funds from operations per unit increased 30%, from $0.33 in last year's quarter to $0.43, thanks to the contribution from recent acquisitions.

Management announced its plan to create a Canadian corporation in order to enhance the liquidity of the stock. More precisely, it will distribute class A shares of the new corporation, Brookfield Renewable Corporation, to existing unitholders. From an economic and accounting perspective, the transaction will be similar to a unit split.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
FFOPS[1]	---	---	$1.65	$1.31	$2.24	$2.07	$1.69	$1.45	$1.90	$2.16	***$2.60***	***$3.48***
DPS	---	---	$1.31	$1.38	$1.45	$1.55	$1.66	$1.78	$1.87	$1.96	***$2.06***	***$2.60***
Shares[2]	---	---	262.5	265.3	265.3	271.2	275.6	288.7	311.8	312.2	***311.0***	***320.0***

We expect Brookfield Renewable Partners to continue growing funds from operations at a meaningful pace via its heavy investing in new projects. The company recently announced its investment in a joint venture of a global solar developer with more than 6,500 megawatts of solar power.

We believe that the track record of the Brookfield companies signals that Brookfield Renewable Partners is likely to achieve its repeated 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' near 6% historical yield, we believe that investors can expect organic growth to contribute around 6% to the partnership's annualized returns moving forward.

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

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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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/FFO	---	16.2	22.4	11.7	14.9	15.5	20.5	18.4	14.1	***16.5***	***14.0***
Avg. Yld.	---	4.9%	4.7%	6.9%	5.8%	6.3%	6.0%	5.4%	6.4%	***4.8%***	***5.3%***

Brookfield Renewable Partners has traded at an average price-to-FFO multiple of 16.7 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. The stock is trading at a price-to-FFO multiple of 16.5. If it reaches our fair value estimate, it will incur a -3.3% annualized drag to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout[3]	---	---	79.4%	105%	64.7%	74.9%	98.2%	123%	98.4%	90.7%	***79.2%***	***74.7%***

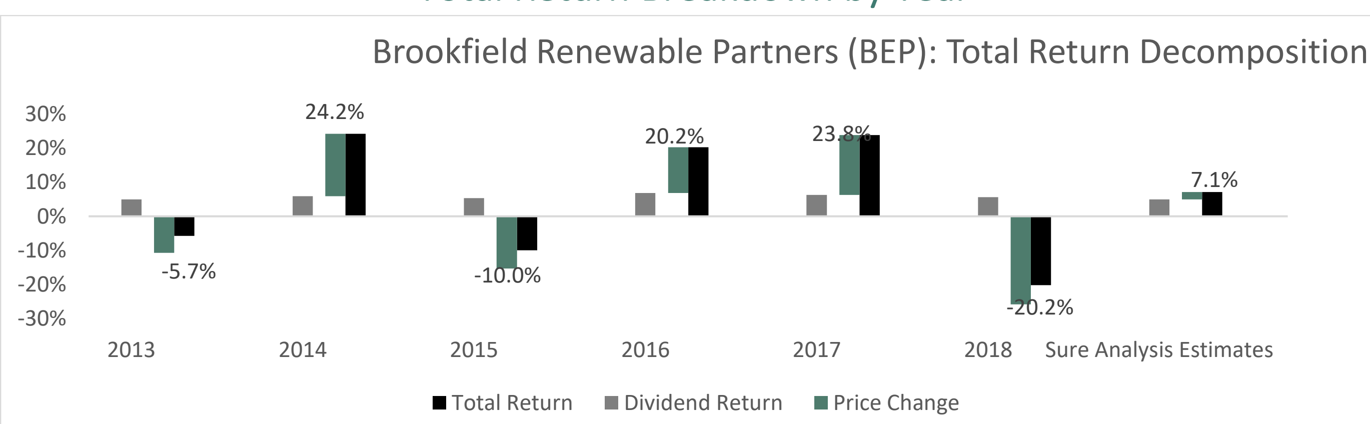
Brookfield Renewable Partners hardly covers its interest expense, as it consumes about half of operating income. On the other hand, the company has no material debt maturities until 2023.

Moreover, the company benefits from Brookfield's various competitive advantages, which include a global operating presence, a long and successful track record of operating real assets, and a skilled management team. It is also critical to note that hydroelectric energy generates 75% of the total funds from operations of the company. Brookfield Renewable Partners has one of the largest hydroelectric businesses in the world, which has doubled in size in the last five years. Hydroelectric assets benefit from long useful lives (often over 100 years) and low operating and capital costs.

Final Thoughts & Recommendation

Brookfield Renewable Partners is one of the largest and most successful pure-play investment vehicles in the world of renewable energy. The stock has rallied 75% off its bottom in the Christmas sell-off and is now trading at an all-time high. Consequently, it has become less attractive and now may offer just a 7.1% average annual return over the next five years. As a result, we lowered our rating from "buy" to "hold." Investors should note that Brookfield Renewable Partners is *highly leveraged* with a high payout ratio; unforeseen headwinds could cause a reduction in the company's dividend.

Total Return Breakdown by Year



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[3] Using funds from operations.

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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	1079	1169	1309	1706	1704	1628	2452	2625	2982	1079
Gross Profit	751	762	823	1176	1180	1076	1414	1647	1946	751
Gross Margin	69.6%	65.2%	62.9%	68.9%	69.2%	66.1%	57.7%	62.7%	65.3%	69.6%
SG&A Exp.	0	1	36	41	51	48	62	82	80	0
D&A Exp.	446	468	483	535	548	616	781	782	819	446
Operating Profit	305	293	304	600	581	412	571	783	1047	305
Operating Margin	28.3%	25.1%	23.2%	35.2%	34.1%	25.3%	23.3%	29.8%	35.1%	28.3%
Net Profit	294	-238	-35	69	58	3	-21	-4	62	294
Net Margin	27.2%	-20.4%	-2.7%	4.0%	3.4%	0.2%	-0.9%	-0.2%	2.1%	27.2%
Free Cash Flow	165	-415	51	509	514	303	263	573	868	165
Income Tax	29	-42	-40	1	-11	-60	-53	88	-59	29

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	13874	15708	16925	16999	19849	19507	27737	30904	34103	13874
Cash & Equivalents	164	225	137	203	150	63	223	799	173	164
Acc. Receivable	111	158	106	105	91	98	262	360	339	111
Goodwill & Int.	87	57	128	74	23	23	910	914	839	87
Total Liabilities	8689	8524	9117	9463	10968	10744	15065	16622	16897	8689
Accounts Payable	133	190	23	31	29	43	87	117	76	133
Long-Term Debt	4994	5519	6119	6623	7678	7338	10182	11766	10718	4994
Total Equity	1355	6250	6217	2726	3167	2955	3772	4467	5191	1355

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.4%	-1.6%	-0.2%	0.4%	0.3%	0.0%	-0.1%	0.0%	0.2%	3.4%
Return on Equity	26.6%	-6.3%	-0.6%	1.5%	2.0%	0.1%	-0.6%	-0.1%	1.3%	26.6%
Shares Out.	---	---	262.5	265.3	265.3	271.2	275.6	288.7	311.8	312.2
Revenue/Share	4.11	8.80	9.86	12.84	12.28	11.36	15.68	15.13	16.55	4.11
FCF/Share	0.63	-3.13	0.38	3.83	3.70	2.11	1.68	3.30	4.82	0.63

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