Brookfield Renewable Partners (BEP)

Updated February 10th, 2020 by Aristofanis Papadatos

Key Metrics

Current Price:	$52	**5 Year CAGR Estimate:**	3.3%	**Market Cap:**	$16.2 B
Fair Value Price:	$36	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	2/27/2020
% Fair Value:	143%	**5 Year Valuation Multiple Estimate:**	-6.9%	**Dividend Payment Date:**	3/30/2020
Dividend Yield:	4.2%	**5 Year Price Target**	$49	**Years Of Dividend Growth:**	10
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	5.3%

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 about 19,000 megawatts of capacity 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$16 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 early February, Brookfield Renewable Partners reported (2/6/20) financial results for the fourth quarter of fiscal 2019. In the year, the company's share of actual generation rose 1.1% 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) rose 1.3%. Normalized funds from operations per unit grew 13%, from $2.16 in 2018 to $2.45, thanks to the contribution from recent acquisitions and recently commissioned facilities.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFOPS[1]	---	$1.65	$1.31	$2.24	$2.07	$1.69	$1.45	$1.90	$2.16	$2.45	***$2.60***	***$3.48***
DPS	---	$1.31	$1.38	$1.45	$1.55	$1.66	$1.78	$1.87	$1.96	$2.06	***$2.17***	***$2.75***
Shares[2]	---	262.5	265.3	265.3	271.2	275.6	288.7	311.8	312.2	311.3	***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 acquired a 50% stake in X-Elio, a leading global solar developer, while it invested a total of $2.0 billion (12% of its market cap) in new growth projects in 2019.

Brookfield Renewable Partners objective as a publicly traded partnership 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.*" While the total return portion is based on the market price of the security, the distribution and business growth are under the company's control. We believe Brookfield Renewable Partners investors can expect organic growth of around 6% over the intermediate term.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/FFO	16.2	22.4	11.7	14.9	15.5	20.5	18.4	14.1	14.6	***20.0***	***14.0***
Avg. Yld.	4.9%	4.7%	6.9%	5.8%	6.3%	6.0%	5.4%	6.4%	5.7%	***4.2%***	***5.6%***

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

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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 has doubled since late 2018 and it is now trading at a price-to-FFO multiple of 20.0. If it reaches our fair value estimate, it will incur a -6.9% annualized drag to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout[3]	---	79.4%	105%	64.7%	74.9%	98.2%	123%	98.4%	90.7%	84.1%	***83.5%***	***79.0%***

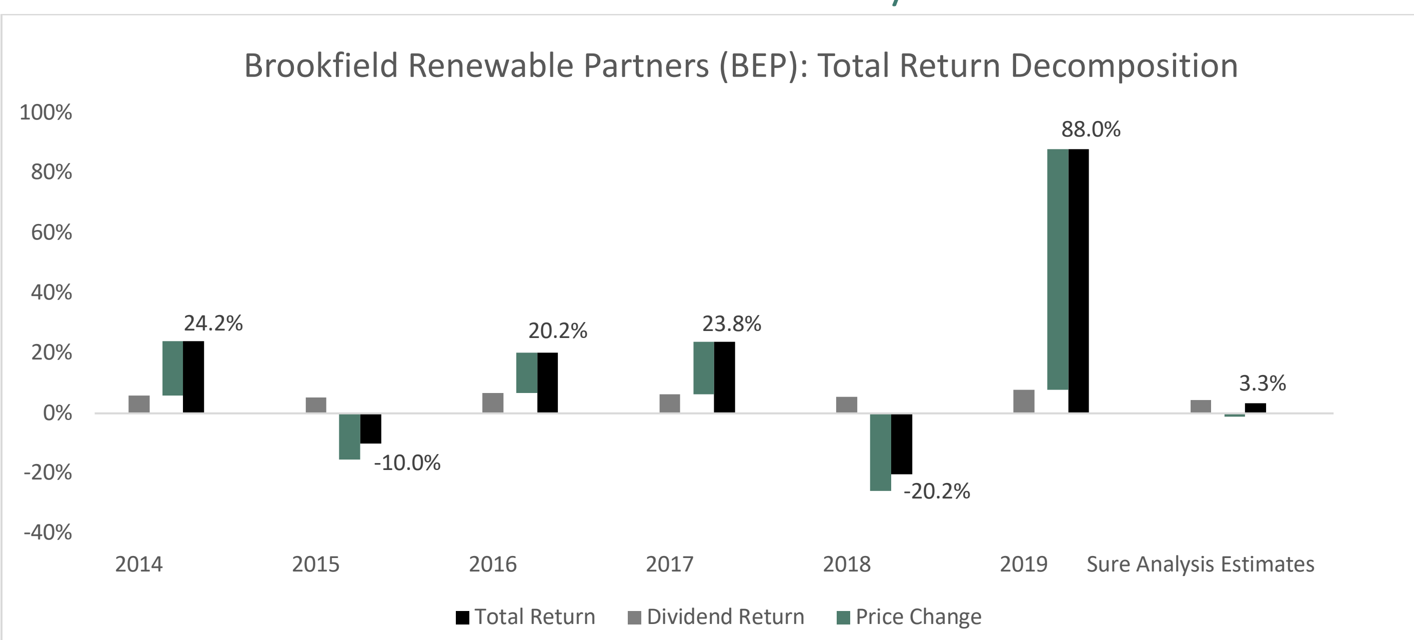
Brookfield Renewable Partners hardly covers its interest expense, as it consumes 64% of operating income. On the other hand, the company has no material debt maturities until 2023.

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 80% 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 doubled off its bottom at the end of 2018 and is now trading at an all-time high. Consequently, it has become less attractive and now may offer just a 3.3% average annual return over the next five years. We view its valuation as too rich, particularly given its leverage. We thus rate the stock as a hold. Due to the high leverage and the 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1,079	1,169	1,309	1,706	1,704	1,628	2,452	2,625	2,982	2,980
Gross Profit	751	762	823	1,176	1,180	1,076	1,414	1,647	1,946	1,968
Gross Margin	69.6%	65.2%	62.9%	68.9%	69.2%	66.1%	57.7%	62.7%	65.3%	66.0%
SG&A Exp.	-	1	36	41	51	48	62	82	80	108
D&A Exp.	446	468	483	535	548	616	781	782	819	798
Operating Profit	305	293	304	600	581	412	571	783	1,047	1,062
Operating Margin	28.3%	25.1%	23.2%	35.2%	34.1%	25.3%	23.3%	29.8%	35.1%	35.6%
Net Profit	294	(475)	(71)	137	114	4	(50)	(28)	80	(15)
Net Margin	27.2%	-40.6%	-5.4%	8.0%	6.7%	0.2%	-2.0%	-1.1%	2.7%	-0.5%
Free Cash Flow	165	(415)	51	509	514	303	263	573	868	1,017
Income Tax	29	(42)	(40)	1	(11)	(60)	(53)	88	(59)	51

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	13,874	15,708	16,925	16,999	19,849	19,507	27,737	30,904	34,103	35,691
Cash & Equivalents	164	225	137	203	150	63	223	799	173	115
Acc. Receivable	111	158	106	105	91	98	262	360	339	1,172
Goodwill & Int.	87	57	128	74	23	23	910	914	839	821
Total Liabilities	8,689	8,524	9,117	9,463	10,968	10,744	15,065	16,622	16,897	17,560
Accounts Payable	133	190	23	31	29	43	87	117	76	895
Long-Term Debt	4,994	5,519	6,119	6,623	7,678	7,338	10,182	11,766	10,718	11,004
Total Equity	1,355	6,314	6,280	5,437	6,091	5,566	6,507	7,368	8,509	8,792

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	3.4%	-3.2%	-0.4%	0.8%	0.6%	0.0%	-0.2%	-0.1%	0.2%	0.0%
Return on Equity	26.6%	-12.4%	-1.1%	2.3%	2.0%	0.1%	-0.8%	-0.4%	1.0%	-0.2%
Shares Out.	---	262.5	265.3	265.3	271.2	275.6	288.7	311.8	312.2	311.3
Revenue/Share	4.11	8.80	9.85	6.43	6.29	5.91	8.49	8.58	9.54	9.58
FCF/Share	0.63	(3.12)	0.38	1.92	1.90	1.10	0.91	1.87	2.78	3.27

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