Brookfield Renewable Partners (BEP)

Updated August 31st, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	$41	**5 Year CAGR Estimate:**	4.2%	**Market Cap:**	$19.4 B
Fair Value Price:	$32	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	8/30/2021
% Fair Value:	127%	**5 Year Valuation Multiple Estimate:**	-4.7%	**Dividend Payment Date:**	9/29/2021
Dividend Yield:	3.0%	**5 Year Price Target**	$43	**Years Of Dividend Growth:**	0
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	N/A

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 Renewable Partners trades with a market capitalization of US$19.4 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.

On December 11th, 2020, Brookfield Renewable Partners implemented a 3-for-2 stock split. All the figures in this report have been adjusted to account for that split. In early August, BEP reported (8/5/21) financial results for the second quarter of fiscal 2021. Its share of actual generation grew 8% and its normalized funds from operations per unit grew 23%, from $0.43 to $0.53, thanks to strong asset availability, growth from recent acquisitions and development assets that came online. The company is resilient to the downturn caused by the pandemic thanks to its diversified portfolio and the 14-year average duration of its contracts. It has more than 600 customers, with the largest non-government customer generating only 2% of the revenues of the company.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFOPS[1]	$1.10	$0.87	$1.49	$1.38	$1.13	$0.97	$1.27	$1.44	$1.24	$1.52	***$1.90***	***$2.54***
DPS	$0.70	$0.74	$0.77	$0.83	$0.89	$0.95	$1.00	$1.31	$1.03	$1.30	***$1.22***	***$1.56***
Shares[2]	262.5	265.3	265.3	271.2	275.6	288.7	311.8	312.2	311.3	473.3	***474.0***	***500.0***

We expect Brookfield Renewable Partners to continue growing funds from operations at a meaningful pace via its heavy investing in new projects and the steadily decreasing production cost of solar and wind power. The company is one of the largest publicly traded renewable power platforms. 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	22.4	11.7	14.9	15.5	20.5	18.4	14.1	14.6	21.9	***21.6***	***17.0***
Avg. Yld.	4.7%	6.9%	5.8%	6.3%	6.0%	5.4%	6.4%	5.7%	3.9%	***3.0%***	***3.6%***

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

[2] In millions.

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Brookfield Renewable Partners is currently trading at a price-to-FFO ratio of 21.6. The stock has traded at an average price-to-FFO multiple of 17.0 over the last decade. If it reverts to its historical valuation level, it will incur a -4.7% annualized drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout[3]	79.4%	105%	64.7%	74.9%	98.2%	123%	98.4%	90.7%	84.1%	85.5%	***64.2%***	***61.2%***

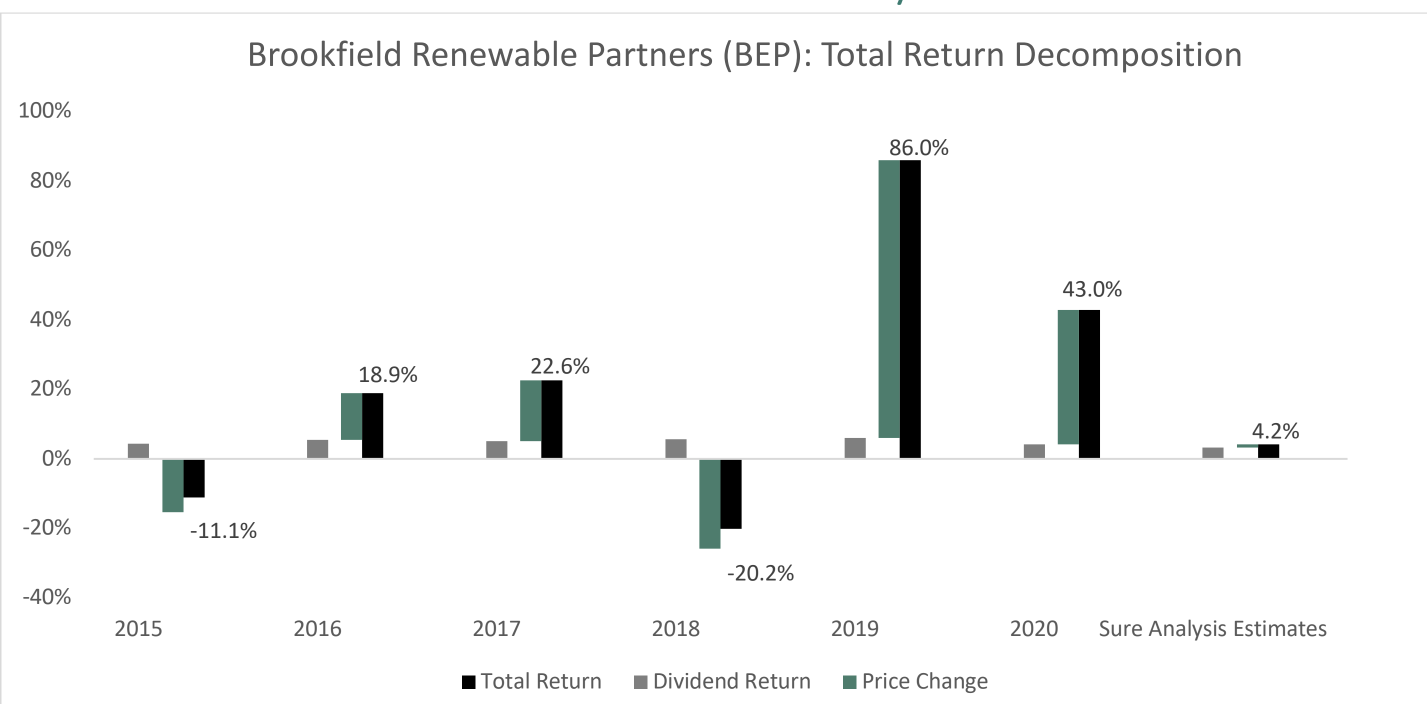
Brookfield Renewable Partners does not cover its interest expense, as it consumes 105% of operating income. On the other hand, the company has no material debt maturities until 2025.

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 70% 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. However, the stock has more than doubled off its bottom last year and thus it may now offer just a 4.2% average annual return over the next five years. We view its valuation as rich, particularly given its leverage. We thus rate the stock as a hold. The stock may remain richly valued for a considerable period thanks to the renewable energy hype, but it is not a sound investing strategy to rely on a rich valuation.

Total Return Breakdown by Year



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[3] Using funds from operations.

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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1,169	1,309	1,706	1,704	1,628	2,452	2,625	2,982	2,980	3,810
Gross Profit	762	823	1,176	1,180	1,076	1,414	1,647	1,946	1,968	2,536
Gross Margin	65.2%	62.9%	68.9%	69.2%	66.1%	57.7%	62.7%	65.3%	66.0%	66.6%
SG&A Exp.	1	36	41	51	48	62	82	80	108	235
D&A Exp.	468	483	535	548	616	781	782	819	798	1,367
Operating Profit	293	304	600	581	412	571	783	1,047	1,062	934
Operating Margin	25.1%	23.2%	35.2%	34.1%	25.3%	23.3%	29.8%	35.1%	35.6%	24.5%
Net Profit	(475)	(71)	137	114	4	(50)	(28)	80	(15)	(304)
Net Margin	-40.6%	-5.4%	8.0%	6.7%	0.2%	-2.0%	-1.1%	2.7%	-0.5%	-8.0%
Free Cash Flow	(415)	51	509	514	303	263	573	868	1,017	849
Income Tax	(42)	(40)	1	(11)	(60)	(53)	88	(59)	51	(147)

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	15,708	16,925	16,999	19,849	19,507	27,737	30,904	34,103	35,691	49,722
Cash & Equivalents	225	137	203	150	63	223	799	173	115	431
Acc. Receivable	158	106	105	91	98	262	360	339	1,172	1,661
Goodwill & Int.	57	128	74	23	23	910	914	839	831	970
Total Liabilities	8,524	9,117	9,463	10,968	10,744	15,065	16,622	16,897	17,560	27,955
Accounts Payable	190	23	31	29	43	87	117	76	895	4,358
Long-Term Debt	5,519	6,119	6,623	7,678	7,338	10,182	11,766	10,718	11,004	18,082
Total Equity	6,314	6,280	5,437	6,091	5,566	6,507	7,368	8,509	8,792	4,873

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	-3.2%	-0.4%	0.8%	0.6%	0.0%	-0.2%	-0.1%	0.2%	0.0%	-0.7%
Return on Equity	-12.4%	-1.1%	2.3%	2.0%	0.1%	-0.8%	-0.4%	1.0%	-0.2%	-5.9%
Shares Out.	262.5	265.3	265.3	271.2	275.6	288.7	311.8	312.2	311.3	645.5
Revenue/Share	8.80	9.85	6.43	6.29	5.91	8.49	8.58	9.54	9.58	13.86
FCF/Share	(3.12)	0.38	1.92	1.90	1.10	0.91	1.87	2.78	3.27	3.09

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