BROOKFIELD RENEWABLE PARTNERS LP (TSX: BEP.UN)

Energy: Wholesale Power/Decarbonization Solutions

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Initiating Coverage of BEP at Market Outperform and $45.31 Target Price

Bottom Line:

We are initiating coverage of Brookfield Renewable Partners LP, a globally and technologically diversified renewable power pure play at Market Outperform and $45.31 target price. We are increasingly optimistic about the global demand of renewable power and believe that BEP has the scale and experience to be able to replicate more deals of the scope it recently signed with Microsoft. We estimate FFO to continue growing at near double-digit pace, and dividends to rise accordingly. Reflective of the global demand for renewables but aware of the operational expenditures and rising interest expense, we rate BEP Market Outperform.

Key Points

Global Leadership in Renewable Energy – Brookfield is a global leader in renewable energy with a diversified portfolio across hydroelectric, wind, solar, and storage assets. Its 33.2 GW of operating capacity and a 230 GW development pipeline position it to capitalize on the global shift towards clean energy. BEP will now be focusing on expanding within markets they already have a presence in due to their efforts to globalize early on, with assets in North America, South America, Europe, and Asia.

Unmatched M&A Capabilities – BEP's ability to partner with Brookfield Corporation and its institutional investors gives it unparalleled access to capital for mergers & acquisitions, allowing it to go in as a minority equity-holder in many different businesses, which is immediately accretive to cash flows. This unique structure enables BEP to pursue large-scale, strategic acquisitions that are often out of reach for other renewable pure play companies, significantly enhancing its growth prospects and market positioning.

Robust Industry Fundamentals Support Long-Term Growth – The renewable energy industry is expected to experience strong growth, driven by global decarbonization efforts and the drastic shift from coal and fossil fuels, technological advancements, and a favorable regulatory environment. Additionally, we are optimistic that regardless of policy change globally, the demand pull from corporate customers vastly outweighs the pull from policy, sheltering BEP from regulatory fluctuations every few years.

Focus on Immediately Accretive Acquisitions – BEP's acquisition strategy is centered around securing high-quality platforms with advanced development pipelines that can immediately meet the surging demand for renewable energy. Unlike peers who may focus on longer-term projects, BEP prioritizes assets that are ready to contribute to current demand, driven by factors such as electrification and energy security. This approach not only supports immediate growth but also ensures a steady pipeline for future development, solidifying BEP's position as a leader in the renewable energy sector. The company remains committed to renewable technologies, with a focus on wind, solar, battery, and hydro generation, even as broader energy demand may see an increase in natural gas within the electricity mix.

Market Outperform
Target Price $45.31

Suitability	Moderate Risk/Income

MARKET DATA

Current Price	$35.26
52-Week Range	$27.55-$40.84
Market Cap	$24.04
Current Net Debt	$38.07
Enterprise Value	$83.10
Dividend Yield	5.5%
EPS	$(0.39)
Beta	0.89

KEY FINANCIAL METRICS

	2022A	2023A	2024E
Sales	$6.4	$6.65	$8.26
% Growth	*23%*	*3.9%*	*24.2%*
Net Income	$-.23	$-.13	$-.13
% Growth	*16.1%*	*47.1%*	*(1.2)%*
FFO	$1.38	$1.5	$1.65
% Growth	*7.6%*	*9%*	*9.5%*
EBITDA	2.79$	$3.04	$3.31
% Change	*6.7%*	*8.96%*	*8.89%*

KEY MULTIPLES

VALUATION	
P/DCF	10.6x
EV/EBITDA	19.7x
P/BV	1.43x
P/NTM CFPS	13.47x
LIQUIDITY	
Current Ratio	0.5x
Quick Ratio	0.4x
Cash from Ops. / Current Liabilities	0.2x
LEVERAGE	
LT Debt/Equity	88.8%
LT Debt/Capital	42.7%
Net Debt/EBITDA	9.7x
EFFICIENCY	
Return on Assets	0.8%
Return on Equity	0.5%

Source(s): FactSet, CapIQ, BEP Company Filings
All figures in billions of $CAD except per share values.
Data as of October 30th, 2024.

Initiating at Market Outperform With $45.31 Target Price

Initiate Coverage of BEP at Market Outperform with target price $45.31. We see that the market is increasingly becoming aware of the investment positives, but we still see a lot of room for appreciation.

We initiate coverage of Brookfield Renewable Partners LP (BEP) at Market Outperform; $45.31 target price. BEP is a global leader in renewable energy and investments, with a diverse asset class spread across the globe. BEP's position as an institutional partner of Brookfield Corporation offers investors an attractive opportunity within the clean energy sector to own a best-in-class company that we expect will benefit from the tailwinds of the global public and private demand of clean energy, as well as the reduced costs of battery storage, wind, and solar technology. We do not believe these positives are currently being reflected in the share price, which has only improved around 3% YTD, has declined around 6% in the last month. Brookfield is currently trading at a significant valuation premium to its peers on FY2 EV/EBITDA, which we believe will persist and the current differential to remain steady.

We prefer exposure to renewable pure play companies that have both diverse and reliable assets, such as a variety of hydroelectric, wind, solar, and battery storage technologies, as well as ones that are exposed to a variety of emerging markets to capitalize on current global market trends. We do not currently see BEP's funds from operations growth (FFO) reflected in the current share price, nor are the recent gains in both geographical markets such as France & Australia, in addition to big corporate customers like Microsoft. In the exhibit below, we highlight what we believe to be the most comparable public equity grouping to BEP. We focus on North American renewable energy pure plays, with a mix of different renewable power generation and storage technologies, as well as some exposure to South America where Brookfield does extensive business.

Exhibit 1: BEP Comparable Companies Group

Company Name	Ticker	Fiscal Period	Price	Market Value	Dividend Yield (%)	EBITDA FY1	EBITDA FY2	EV/EBITDA FY1 (x)	EV/EBITDA FY2 (x)	EPS FY1	EPS FY2	Price to Cash Flow FY1 (x)	Price to Cash Flow FY2 (x)	EV/SALES FY1 (x)	EV/SALES FY2 (x)
Brookfield Renewable Partners	BEP.UT-CA	06/30/2024	$35.26	$ 23,382.98	5.29%	$3,268.80	$ 3,566.06	18.29x	16.77x	($0.04)	$0.85	10.10x	7.93x	7.07x	6.56x
Clearway Energy C	CWEN-US	09/30/2024	$38.45	$ 7,689.75	5.62%	$1,632.83	$ 1,705.41	12.82x	12.28x	$0.78	$0.79	5.94x	6.71x	10.58x	9.79x
Ormat Technologies	ORA-US	06/30/2024	$109.61	$ 6,626.12	0.63%	$739.47	$ 825.79	12.66x	11.33x	$2.58	$3.27	12.09x	10.96x	7.53x	6.81x
Northland Power	NPI-CA	06/30/2024	$20.75	$ 5,363.67	4.99%	$1,306.06	$ 1,337.94	8.82x	8.61x	$1.73	$1.39	4.80x	4.67x	4.84x	4.83x
NextEra Energy Partners	NEP-US	09/30/2024	$26.81	$ 5,013.75	11.10%	$2,772.13	$ 2,803.42	3.31x	3.27x	$2.78	$3.41	2.55x	2.60x	5.06x	4.84x
Atlantica Sustainable	AY-US	06/30/2024	$30.75	$ 3,571.60	8.28%	$1,144.83	$ 1,183.44	8.79x	8.50x	$0.55	$0.88	6.27x	5.73x	6.19x	6.03x
Boralex A	BLX-CA	06/30/2024	$33.42	$ 3,434.44	1.96%	$700.75	$ 734.41	8.60x	8.21x	$1.05	$1.12	7.69x	7.19x	6.98x	6.66x
Vistra	VST-US	06/30/2024	$166.42	$ 57,176.74	2.13%	$6,758.47	$ 8,000.79	12.76x	10.78x	$5.95	$9.11	11.35x	8.67x	3.59x	3.22x
ReNew Energy Global A	RNW-US	06/30/2024	$7.56	$ 2,820.74	0.00%	$1,246.42	$ 1,503.86	9.95x	8.25x	$0.09	$0.42	12.94x	6.83x	7.59x	5.92x
Innergex Renewable Energy	INE-CA	06/30/2024	$8.92	$ 1,812.49	7.83%	$731.78	$ 848.16	11.41x	9.84x	($0.15)	$0.11	6.72x	4.90x	7.86x	7.02x
Constellation Energy	CEG-US	06/30/2024	$359.42	$112,385.82	0.97%	$6,308.62	$ 6,905.10	20.11x	18.37x	$11.23	$12.46	18.07x	17.55x	3.98x	3.96x
Centrais Eletricas	ELET3-BR	06/30/2024	$8.77	$ 20,484.00	4.30%	$4,985.62	$ 5,685.70	5.14x	4.50x	$0.72	$0.95	9.68x	5.86x	2.77x	2.79x
GE Vernova	GEV-US	09/30/2024	$419.28	$115,576.56	-	$2,914.20	$ 4,599.76	36.98x	23.43x	$3.76	$9.69	33.07x	31.79x	2.21x	2.08x
Algonquin Power & Utilities	AQN-CA	06/30/2024	$6.64	$ 5,092.81	6.94%	$1,742.54	$ 1,430.73	9.59x	11.68x	$0.63	$0.47	4.31x	4.85x	4.39x	4.67x
Average					**4.62%**			**12.80x**	**11.13x**			**10.40x**	**9.02x**	**5.65x**	**5.23x**
Median					**4.57%**			**12.41x**	**10.73x**			**10.42x**	**9.09x**	**6.25x**	**5.79x**

Source(s): CapIQ, FactSet, Company Filings, VIG Research

It is important to consider however the potential downside risk should the macroeconomic environment deteriorate or if BEP faces delays in its project timelines. In a recessionary scenario, we estimate that the stock could retrace to a worst case of $29, representing a contraction in valuation multiples closer to those of its lower-growth peers. Conversely, an acceleration in global demand for clean energy, particularly in key markets that Brookfield is just now intently exploring such as Australia and France, could drive an upside scenario where the stock reaches a best case of over $55, supported by higher earnings growth and expanded multiples as investors increasingly recognize BEP's strategic advantages.

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Company Overview

Company History

A Bermuda based limited partnership, Brookfield Renewable Partners is the flagship vehicle for renewable power and transition of Brookfield Asset Management, who currently own over 25% of the shares outstanding. The company was formerly known as Brookfield Renewable Energy Partners L.P. in 2011, when Brookfield Asset Management combined the hydroelectric stations and wind farms of Brookfield Renewable Power Fund with Brookfield Renewable Power Inc. The company changed its name to its current state in 2016, and, while based out of Bermuda, their corporate headquarters are held in Toronto, Canada. Trading began on the TSX in 2011, and on the NYSE in 2013. We would note that investors can access its portfolio through both Brookfield Renewable Partners L. P (NYSE: BEP, TSX: BEP.UN), or Brookfield Corporation (NYSE, TSX: BEPC), a Canadian corporation. BEPC was established to offer investors greater flexibility in accessing BEP's global renewable power portfolio. BEPC Class A shares provide economic returns equivalent to BEP units within a traditional corporate structure. Each share offers the same distribution as a BEP unit and can be exchanged for one BEP unit at the shareholder's discretion. We would also note that on November 4, 2020, a 3-for-2 split of the company's outstanding LP units was announced.

Business Description

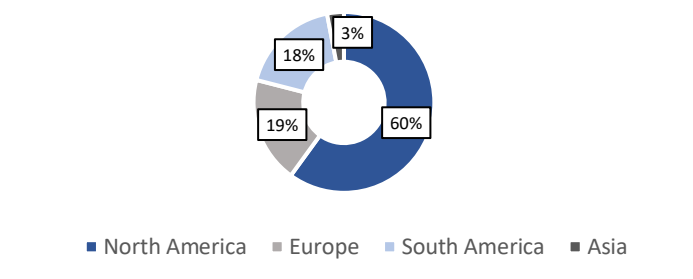
Brookfield's portfolio of generating assets includes hydroelectric, wind, utility-scale solar, distributed energy and sustainable solutions across the Americas, Europe, and Asia. Their renewable power assets account for 97% of its revenues, with approximately 33.2 GW of operating capacity and a development pipeline consisting of over 230 GW. Brookfield's business is primarily made up of long-term, inflation linked contracts with corporate and industrial customers, as well as public power authorities and utilities, which provide stable cash flows. Brookfield's hydroelectric segment currently makes up 47% of its Funds from Operations (FFO), and 60% of its FFO is from North America (Exhibit 2). However, scale does not equate to growth, as their solar and sustainable solutions have had the most impressive growth in FFO in recent years (Exhibit 3), each growing at 41% and 940% respectively from 2021-2023, the latter explosive growth being due to its early-stage nature.

A growing dividend yield and stable long-term contracts ensure consistent and foreseeable cashflows.

Brookfield has an M&A intensive growth business model, developing high-quality assets after acquiring them below their intrinsic value. Brookfield finances this on a long-term, low-risk basis, complementing their global reach and experience with a conservative financing strategy. To get ahead of the curve and reach economies of scale, Brookfield is capitalizing on the global discrepancy between energy demand and supply by leveraging more than most competitors, expanding into new markets, and capturing more favorable price points.
Brookfield operates in an industry that is weighed down by both capex and D&A. Combined with their high interest expenses from financing, their bottom line has yet to reach profitability, but the company still delivers on its targets of annual +10% FFO growth, 5-9% distribution growth, ensuring continuous returns to shareholders no matter the market.

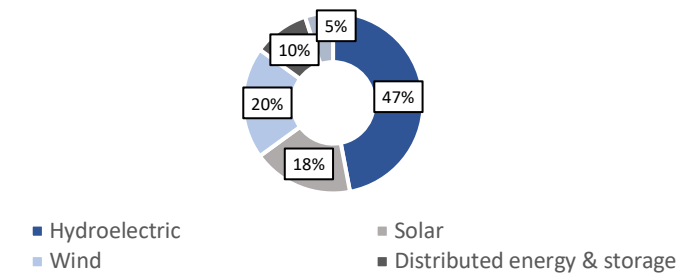
We think BEP is well positioned to leverage its growing asset class to capture more of the market share in many economies currently seeing strong digitalization and electrification. They are poised to benefit off the tailwinds of the growing energy demand from data centers, cloud computing services, and the power intensive AI which businesses around the world are currently developing and integrating.

Exhibit 2: FFO by Geography



Source(s): Brookfield Renewable Partners Company Filings, VIG Research

Exhibit 3: FFO by Technology



Source(s): Brookfield Renewable Partners Company Filings, VIG Research

Segment Overview

One of Brookfield's competitive strengths is its significant scale and diversification of energy producing segments, including hydroelectric, wind, and solar power, as well as a distributed energy & storage segment, alongside a newly segmented sustainable solutions portfolio, which has been differentiated due to its growing scale. We would like to note that Brookfield also generates a large portion of their revenues from unallocated equity-accounted investments, where Brookfield Renewable holds a minority interest. While these revenues do not fall under a specific segment on their financial statements, they do include every segment that is described below.

Hydro – The Hydroelectric Segment of Brookfield Renewable Partners focuses on generating renewable energy through hydroelectric plants, including dams and other hydroelectric producing facilities, located across North America, Columbia, and Brazil. BEP's hydro power facilities are enduring assets that provide reliable, clean energy and storage capacity, supporting the decarbonization of power grids. This segment is a significant part of BEP's overall operations, ensuring stable and predictable revenue through long-term power purchase agreements (PPAs) and spot market sales. Their total operations include 86 river systems and 237 hydroelectric facilities, producing a total capacity of 8,259 MW and generating 38,014 (LTA) GWh annually. Significant assets include the Sogamoso Hydroelectric Plant in Colombia, as well as the Mica Dam in British Columbia and the La Grande complex in Quebec, which play a crucial role in energy production.

Wind – The Wind Segment is a critical element of Brookfield Renewable's diversified renewable energy strategy, capitalizing on favorable wind conditions across multiple regions to provide clean energy. BEP's expanding wind portfolio spans attractive power markets in North America, South America, Europe, and Asia, with both onshore and offshore installations. They operate a total of 183 wind facilities, generating 11,130 MW of capacity and 34,971 GWh of energy annually. Significant projects include the first ever wind repowering project in the New York State, where they increased power output by 30% with no increase to the site footprint, as well as their 2017 acquisition of TerraForm, expanding their renewable footprint in existing markets, as well as enabling establishment of new operations in the high-growth markets of India and China.

Exhibit 4: Holtwood Hydroelectric Facility in Pennsylvania

Source(s): Brookfield Renewable Partners Company Filings

Exhibit 5: TerraForm Wind Farm

Source(s): Brookfield Renewable Partners Company Filings

Solar – BEP's utility-scale solar operations encompass numerous solar farms that generate electricity using photovoltaic panels. Utility-scale solar, one of the fastest-growing renewable energy sources, as demonstrated by the record 56 GW of capacity added in 2023 in Europe, offers diverse and scalable applications. These projects are designed to maximize energy production in regions with high solar irradiance. This segment is vital for BEP's efforts to expand its clean energy production and meet global sustainability goals. Their operations in Europe, North America, South America, and India include 225 facilities, generating 7,591 MW of capacity and 16,509 GWh of energy annually. Some of their most significant projects include their investment in X-Elio, which has major projects under construction in places such as Australia, Spain, Italy, Japan, Chile and the United States, as well as their 2022 acquisition of Urban Grid, a large clean power developer in the United States.

Distributed Energy & Storage – The Distributed Energy & Storage Segment of Brookfield Renewable Partners includes distributed generation projects and energy storage solutions. These projects enhance local energy resilience and reliability, supporting BEP's broader renewable energy strategy. BEP's on-site solar and storage portfolio provides companies with power at the point of consumption, reducing costs, increasing resilience, and aiding in their decarbonization efforts. Brookfield's distributed generation assets consist of various small-scale energy production facilities that are strategically located close to their points of consumption. These facilities include solar photovoltaic (PV) systems, fuel cells, and other localized renewable energy sources. The main storage they engage in is pumped storage, and these facilities store energy in the form of gravitational potential energy by pumping water to a higher elevation during periods of low demand or excess renewable generation. The stored energy is then released to generate electricity during peak demand periods, providing a reliable and flexible energy source.

Access to 24/7 energy is the most important factor for technology and cloud computing companies, and Brookfield's positioning in this segment reflects great market awareness and strategic positioning.

Batteries are seeing cost reductions due to economies of scale driven by the expanding electric vehicle market, rising demand for capacity and grid stabilization, and their role in enhancing the use of low-cost renewables by providing power when solar and wind sources are unavailable. Consequently, battery costs are decreasing faster than those of traditional renewables. With lower capital expenses, higher revenue potential, and growing customer demand for these solutions, Brookfield is prioritizing investment in battery energy storage systems in key markets. BEP operates a total of 2 river systems, 6,964 facilities, generating 5,765 MW of capacity, and producing 3,741 GWh of energy annually. Its assets across Europe, Asia-Pacific, and North and South America include projects like the 4.5-megawatt distributed solar generation system at a California high school that utilizes both rooftop and parking canopy shade systems to locally generate solar power.

Exhibit 6: X-Elio Solar Farm

Source(s): Brookfield Renewable Partners Company Filings

Exhibit 7: California Distributed Energy Solution

Source(s): Brookfield Renewable Partners Company Filings

Sustainable Solutions – Brookfield Renewable's Sustainable Solutions segment is dedicated to advancing the transition to a low-carbon economy by investing in and managing a diverse portfolio of assets and businesses that promote environmental sustainability. This segment encompasses a range of innovative solutions, from renewable energy generation to carbon capture and recycling initiatives. The first subsegment in this includes investments in nuclear services and regional utilities, such as their significant stake in Westinghouse, a leading global nuclear services company that provides essential support for the safe and efficient operation of nuclear power plants worldwide. The second subsegment focuses on carbon capture and renewable natural gas (RNG) production. Brookfield Renewable's carbon capture operations have an annual capacity of 57,000 metric tons per annum (TMTPA), significantly reducing greenhouse gas emissions. The company also produces 3 million Metric Million British thermal units (MMBtu) of agricultural RNG annually, providing a sustainable alternative to fossil fuels. Additionally, their operations include recycling over 1 million tons of materials each year, further supporting the circular economy and reducing environmental impact.

Industry Overview

Global Market Analysis

High capital expenditures drive the renewable energy sector down amidst robust growth prospects. The renewable energy sector is experiencing substantial capital expenditures as countries strive to meet energy transition goals. In Europe, the top 25 utilities project capex to represent 1.1x-1.2x funds from operations (FFO), up from under 0.9x annually in 2017-2019. This translates to an estimated €800 billion required for grid expansion alone by 2030. Heavy debt-funded capex and the additional costs of energy storage are narrowing new project returns. Despite these investments, Brookfield's LTM revenue growth of 5.97% and EBITDA decline of -12.52% indicate the challenges of balancing high capex with operational efficiency. We believe that Brookfield's expertise in acquiring mature companies will enable them to deliver FFO at a faster rate than operational capex.

The risk of climate change is a threat to all businesses, especially traditional energy companies. We believe that this positions BEP better to overcome any environmental risks.

Interest rate environment impacts cash flows and financing conditions. Persistently high interest rates continue to challenge utilities' financial performance. In Brazil, for instance, where they have almost half of their South American hydroelectric business, interest rates jumped from 2.0% in 2020 to 13.75% in 2022, with a projected easing to 9.0% by the end of 2024. This high-rate environment consumes a large portion of operating cash flows, particularly for companies reliant on floating-rate debt. Despite easing monetary policies in some regions, financing costs remain relatively high, impacting utilities' ability to access affordable funding.

Regional variations in power demand growth and renewable capacity expansion. Power demand is stabilizing in Asia-Pacific, the reduced reliance on coal and state-owned IPPs investing heavily into renewables both boosting support for expansion for BEP but limiting returns on projects due to the debt financing necessary to expand so rapidly. They are projected to use half of the world's electricity by 2025, while Latin America faces more limited growth due to economic stagnation, with GDP now being forecasted to grow at 1.2% as opposed to 1.5%. In contrast, Europe is set to more than double its renewable capacity by 2030, driven by wind and solar investments despite offshore wind challenges. North America sees a recovery in electricity sales, boosted by increased electrification, data centers, and electric vehicles.

Climate risks and regulatory pressures increase operational challenges. Climate change is increasing credit risks for utilities, especially in North America, where extreme weather events, such as a 100% rise in wildfire destruction over three years, are more frequent. In Europe, meeting energy transition targets is driving regulatory risks, with capex for power grids expected to rise by 50%-200% from 2023-2025. Geopolitical tensions and regulatory scrutiny, such as in the UK water sector, demand greater investments to maintain service quality.

Industry Upsides

Technological advancements and cost reductions enhance renewable energy profitability. Ongoing advancements in solar and wind technologies such as battery storage are driving significant cost reductions, making these sources more competitive with fossil fuels, which for BEP, has led to income from those assets outpacing their costs. Europe added a record 56 GW of solar capacity in 2023. Energy storage solutions are mitigating intermittency issues, boosting efficiency, reliability, and investor confidence.

Strong policy support and regulatory frameworks bolster investments. Governments worldwide are implementing supportive policies to accelerate renewable energy transitions. The EU aims for a 42.5% renewable share by 2030, while China continues heavy investments despite economic slowdowns. These frameworks provide a stable environment, encouraging substantial public and private sector investments in renewable infrastructure.

Customer Overview

As of the second quarter filing, approximately 90% of BEP's generation was contracted, with a weighted-average remaining contract duration of 13 years, leaving 10% of it uncontracted, and sold at spot prices directly into the market (Exhibit 9). Their customers range from power authorities to commercial users such as cloud computing businesses. We would note that these figures exclude the Brazil and Colombia hydroelectric portfolios, where Brookfield expects the energy associated with maturing contracts to be re-contracted in the normal course given the construct of those respective power markets. In these countries, Brookfield Renewable currently has a contracted profile of approximately 90% and 80%, respectively, of the long-term average of which they expect to remain the same moving forward.

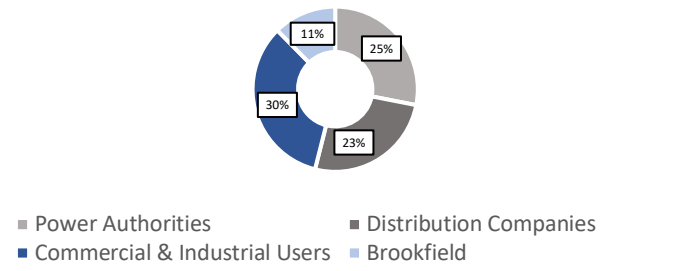
Power Authorities – These entities are typically government or semi-government organizations responsible for the regulation, oversight, and management of electricity supply within a specific region. They ensure the reliability and stability of the power grid, and Brookfield Renewable provides them with a consistent supply of clean energy under long-term contracts. These contracts include partnerships with various regional power authorities across North America, ensuring stable revenue through these long-term agreements.

Distribution Companies – These companies handle the distribution of electricity from transmission systems to end users, including residential, commercial, and industrial customers. By contracting with Brookfield Renewable, distribution companies secure a stable and reliable source of renewable energy to meet their customers' demands, while also complying with regulatory requirements for renewable energy adoption. One such distribution company in their customer base could be those operating in major urban areas requiring reliable clean energy supplies.

Commercial & Industrial Users – Large corporations and industrial facilities fall into this category. They require significant and reliable energy supplies for their operations. Companies such as tech giants rely on Brookfield Renewable for clean energy solutions to fulfill their energy needs through long-term agreements, benefiting from both cost stability and sustainability credentials. This group includes well-known firms like Microsoft, which has a significant power purchase agreement (PPA) with Brookfield Renewable to source renewable energy for its operations. This first of its kind agreement is eight times larger than the largest single corporate PPA ever signed, and positions BEP to deliver over 7 GW of new capacity through 2030. In the most recent quarter, Brookfield advanced commercial priorities, securing contracts to deliver an incremental 2,700-gigawatt hours per year of generation, of which approximately 90% of development was contracted with corporate customers, building on the success of their recently announced partnership with Microsoft (Exhibit 8).

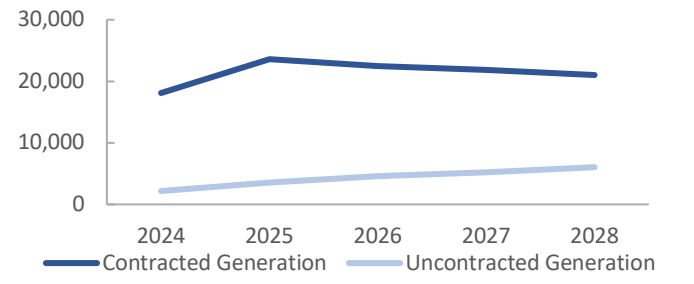
Brookfield – This segment includes internal consumption within Brookfield and its affiliates. By utilizing its own renewable energy production, Brookfield can meet its energy needs sustainably while reducing overall operational costs and demonstrating a commitment to environmental stewardship within its corporate structure.

Exhibit 9: Commercial Users like Microsoft Lead Contracted Power & Continue to Grow at Fast Pace



Source(s): Brookfield Renewable Partners Company Filings, VIG Research

Exhibit 8: Uncontracted Generation Expected to Grow Based on Expectations of Electrification of Industrials & Transportation



Source(s): Brookfield Renewable Partners Company Filings, VIG Research

Competitive Landscape

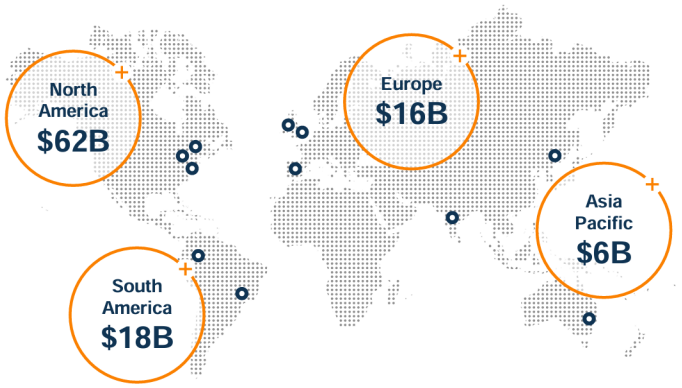
Brookfield Renewable Partners (BEP) operates in a highly dynamic and competitive landscape within the renewable energy sector, which is characterized by a mix of established companies and new entrants across various segments, including hydroelectric, wind, solar, distributed energy & storage, and sustainable solutions. BEP holds approximately 8% market share by market capitalization and 9% by FY1 EBITDA within this diverse group of competitors. However, accurately determining BEP's market share is challenging due to its global operations and the fragmented nature of the renewable energy industry.

The competitors included in this analysis were chosen based on their alignment with BEP's segments and their significance in the renewable energy space. This selection process considers both geographic reach and the degree to which these companies are pure-play renewables, reflecting the diverse strategies within the sector. For example, Constellation Energy, Boralex, and Innergex Renewable Energy are notable players in the hydroelectric segment, where BEP has significant operations. In wind energy, companies like GE Vernova, Clearway Energy, and Northland Power provide benchmarks for BEP's performance and market positioning. Meanwhile, in solar energy, NextEra Energy Partners, Atlantica Sustainable, and ReNew Energy Global represent the key competitive forces against which BEP measures its success.

The renewable energy market is expected to undergo substantial growth over the next decade, driven by increasing global demand for clean energy, technological advancements, and favorable regulatory developments. However, this market is also marked by intense competition and rapid evolution, with new entrants and technological innovations potentially reshaping the competitive landscape. BEP's global diversification provides a significant advantage, allowing the company to spread its risks across various markets and technologies. This diversification, however, also makes it difficult to pinpoint exact market share figures, as BEP competes across multiple segments and regions, each with varying levels of market maturity and competitive dynamics.

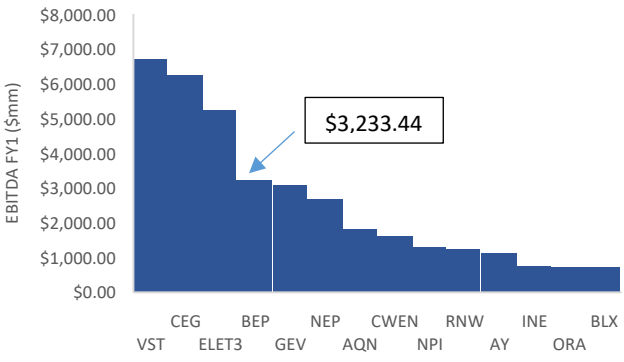
Overall, BEP's strong competitive position is underpinned by its diversified renewable energy portfolio. While the company holds a significant share of the market within its peer group, its continued success will depend on strategic investments in emerging technologies, effective execution of mergers and acquisitions, and its ability to adapt to the fast-changing global renewable energy landscape. As the sector continues to grow and evolve, BEP must leverage its operational expertise and financial strength to maintain and potentially expand its leadership position in the global renewable energy market.

Exhibit 10: Brookfield and its Institutional Partners Have Full-Service Platforms Globally



Source(s): Company Filings

Exhibit 11: BEP is Fourth Among Named & Close Competitors in FY1 EBITDA



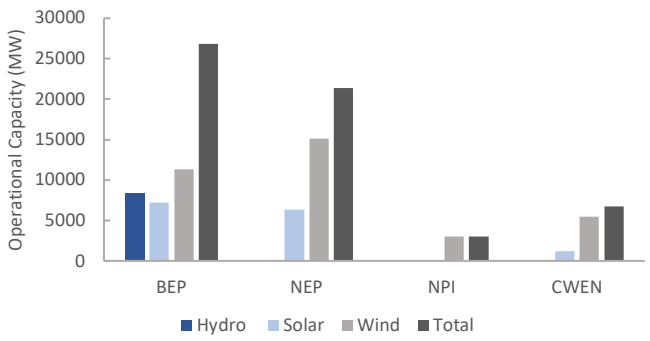
Source(s): Company Filings, VIG Research

BEP Investment Positives

PRIVATE EQUITY-LIKE OPERATIONS ENABLE STRATEGIC POSITIONING

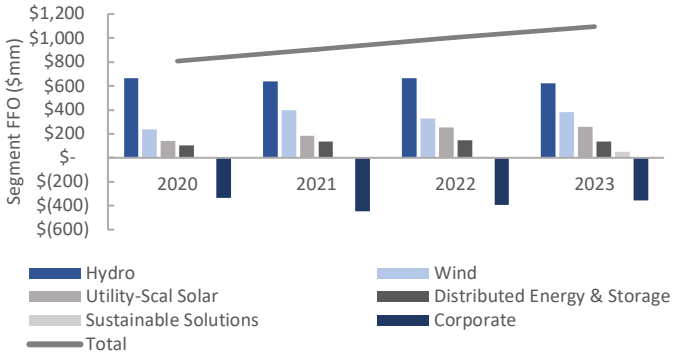
BEP's unique model, supported by Brookfield Corporation, allows it to efficiently deploy capital into high-return projects and recycle assets to maximize value. In early 2024, BEP achieved significant milestones, including finalizing a 10GW contract with Microsoft, which underscores its capacity to secure and execute large-scale projects (Exhibit 12). BEP's extensive portfolio, comprising 8,300 MW of hydro, 7,200 MW of utility-scale solar, and 11,300 MW of onshore wind, positions it ahead of competitors like NextEra Energy Partners, Northland Power, and Clearway Energy, in terms of scale and growth potential. BEP offsets slow organic growth in their operations over the near-term by acquiring and diversifying their portfolio of sustainable solutions companies and decarbonization solutions (Exhibit 13).

Exhibit 12: Brookfield Renewable Partners Dwarfs Competitors in Operational Capacity Through Main Segments



Source(s): FactSet, CapIQ, VIG Research

Exhibit 13: Stagnating FFO From Hydro Operations Offset by Decrease in Corporate Spending and Growth in New Segments

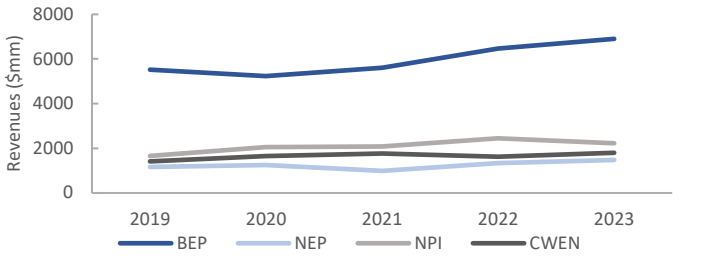


Source(s): FactSet, CapIQ, BEP Company Filings, VIG Research

BEP's strategic acquisitions and robust portfolio have translated into strong financial performance, particularly in revenue growth. Over the past five years, BEP's revenue growth has consistently outpaced many of its competitors, reflecting its effective scaling of operations and diversification of its energy mix. This sustained growth underscores BEP's capability to strategically expand its footprint in the renewable energy sector, leveraging both organic growth and acquisitions to enhance its market position (Exhibit 14). Despite its revenue growth, BEP, alongside NEP and NPI, have seen declining EBITDA margins, which highlights their increasing operational costs because of their increased acquisitions, and PP&E. Albeit, in 2022, BEP's revenues drastically outgrew their costs, leading to a spike in their margin.

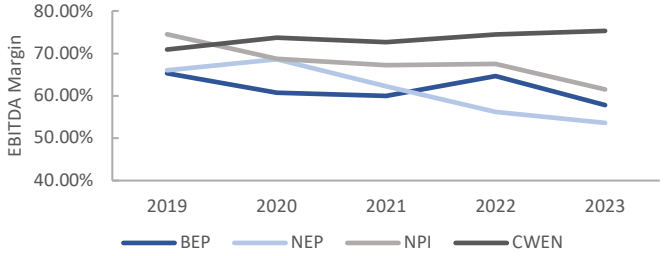
This contrasts with CWEN, which has maintained stable EBITDA margins despite increasing their PP&E investments. The marked difference between these competitors is that CWEN has focused on growing their pipeline organically, while the others have all seen marked increases in their acquisition. Regardless of the method of their growth, this declining margin indicates that BEP has been less efficient in managing its operational costs and extracting value from its investments compared to its peers. This inefficiency highlights a key area where BEP needs to improve to sustain profitability and support its continued growth trajectory (Exhibit 15). We would note this as a point of concern that remains to be overtly addressed, and should this margin continue to decline, could see a possible revision in our assessment.

Exhibit 14: Brookfield Consolidated Revenue Growth Beats Competitors Despite Already Achieving Significant Scale…



Source(s): CapIQ, VIG Research

Exhibit 15: …Which Comes at Cost of Declining Margins as Increased Acquisitions Slows Operational Efficiency Compared to Peers



Source(s): CapIQ, VIG Research

BROOKFIELD'S ROBUST FINANCING AND LIQUIDITY ENABLE SUSTAINABLE GROWTH

Following its strong operational performance and strategic positioning, Brookfield Renewable Partners (BEP) also demonstrates exceptional financial stability and strategic financial management. A cornerstone of BEP's strength lies in its robust financing and liquidity, which are crucial for sustaining growth and capitalizing on market opportunities.

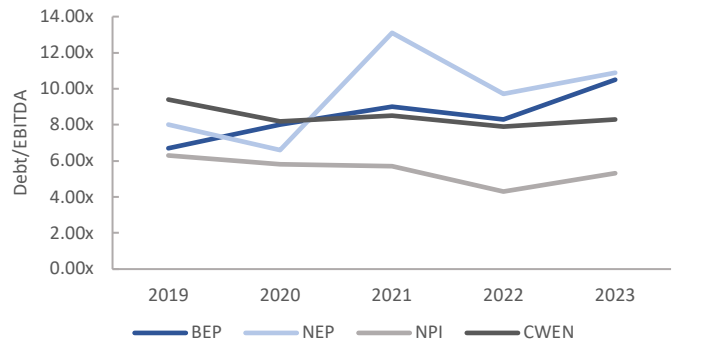
BEP maintains a solid financial position, underpinned by an investment-grade balance sheet and substantial liquidity. As of Q1 2024, BEP's liquidity stood at $4.4 billion USD, comprising cash, cash equivalents, and undrawn credit facilities. This significant liquidity ensures that BEP can seize market opportunities and maintain operational flexibility. With a long-term corporate debt rating of BBB+, BEP's creditworthiness allows it to access financing at competitive rates, essential for funding large-scale renewable energy projects and strategic acquisitions. We believe that BEP's financing strategy strikes a careful balance between debt and equity, ensuring a sustainable capital structure. In January 2024, the company successfully raised $400 million through green bonds, aligning its financing with its sustainability goals, and meaningfully extended its debt-maturity profile. This not only provides capital at favorable terms but also underscores BEP's commitment to environmental, social, and governance (ESG) principles.

We believe that the current environment is favorable for leveraging growth. BEP is achieving great scale at a time where energy demand is growing faster than ever.

While BEP's leverage ratios are notably higher than its peers, we believe this should not be a primary concern given the context of its financial strategy and operational model (Exhibit 16). BEP operates similarly to a private equity firm, with their main growth pipeline centered around acquiring and developing a portfolio of private companies, coupled with a focus on asset recycling as a considerable income source. By selling mature, de-risked assets, BEP generates capital that can be redeployed into higher-return opportunities. This strategy is akin to a real estate business model of building, renting, and selling properties, where the bottom-line net income is less critical due to significant depreciation impacting the income statement. While this is fairly common with some of the largest renewable power companies, competitors of similar size to BEP are unable to do this to the same degree because of BEP's institutional partnerships. BEP generated $500 million USD net with this strategy in 2023 alone. This approach allows BEP to continually refresh its asset base and fund new projects without over-relying on external financing.

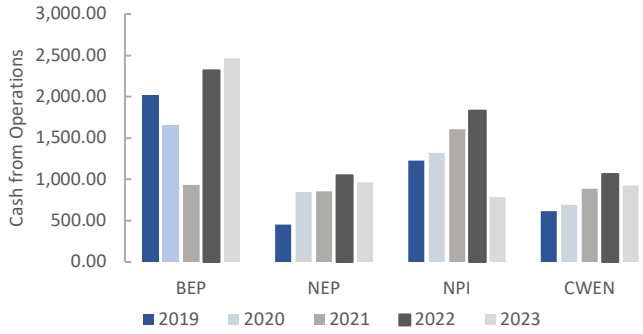
Furthermore, BEP's superior access to capital enables it to undertake larger-scale projects, evidenced by the company's 10GW contract with MSFT—a deal few competitors could replicate. The company's higher leverage is a deliberate strategy that uses its stable, long-term contracted cash flows to finance growth. BEP's Total Debt/EBITDA ratio, while higher than competitors, is supported by predictable and stable cash flows from long-term power purchase agreements (PPAs), which provide revenue visibility and reduce financial risk (Exhibit 17). These agreements, often spanning 10 to 20 years with price escalations, protect against inflation and further stabilize cash flows. This stability allows BEP to comfortably service its debt obligations. Despite having a lower EBITDA/Interest Expense ratio of 1.7x compared to peers like NextEra Energy Partners (3.0x), Northland Power (3.9x), and Clearway Energy (3.4x), we believe BEP's strategic leverage supports its growth ambitions.

Exhibit 16: Brookfield's Debt/EBITDA Climbs as Leverage is Used to Spur Acquisitions



Source(s): CapIQ, VIG Research

Exhibit 17: Growth in Cash from Operations Underscores Their Financing Initiatives Are Paying Off Excluding Deviations in AR & AP



Source(s): CapIQ, VIG Research

GLOBAL M&A ACTIVITY ENHANCES STABILITY & ENABLES BROOKFIELD TO OUTPACE COMPETITORS

BROOKFIELD'S GLOBALLY DIVERSIFIED REVENUES ENABLE GREATER MARKET PENETRATION

Brookfield Renewable Partners (BEP) leverages a highly diversified geographical portfolio, a critical strategic advantage that distinguishes it from its competitors. BEP operates across North America, South America, Europe, and Asia-Pacific, mitigating regional risks and capitalizing on varied market dynamics and regulatory environments. For instance, in 2023, BEP's revenue distribution was $1,359 million from North American hydroelectric, $387 million from Colombian hydroelectric, $317 million from Brazilian hydroelectric, $675 million from global wind operations, $482 million from utility-scale solar projects primarily in Europe and North America, and $318 million from distributed energy and storage projects in North America and Brazil. This broad geographical spread not only stabilizes cash flows but also positions BEP to benefit from localized growth opportunities, regulatory incentives, and diverse market conditions across its operational regions, such as the U.S.'s IRA, ITC's (investment tax credit), and PTC's (production tax credits). While some competitors also benefit from a globally diverse asset base, BEP couples this with a diversification of electrical generating products. Compared to their North American peers who seem to stay within North America or have one or two projects internationally, BEP has assets everywhere in the world. They rely on more renewable technologies than any other close competitor, and at a significantly larger scale than its peers, with around 100 GW in their development pipeline.

BEP's geographical diversification also offers a comparative advantage in managing financial risks. For example, while high interest rates in Brazil pose challenges, BEP's substantial operations in North America and Europe, where interest rates are more favorable, help balance these financial pressures. Additionally, BEP's diversified asset base, including hydroelectric, wind, and solar, across multiple continents, ensures resilience against regional climate impacts and regulatory changes. This diversification strategy is crucial in the current environment, where climate risks and regulatory pressures are increasing operational challenges for utilities.

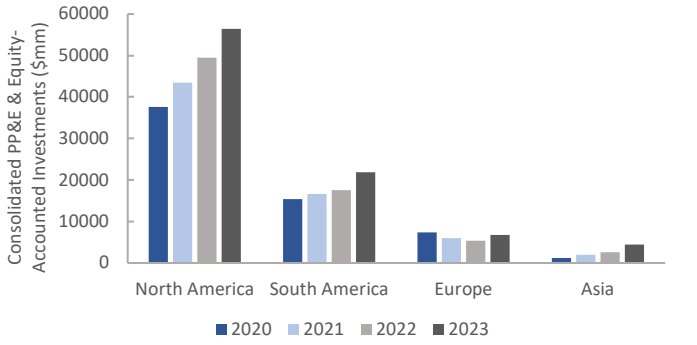
BROOKFIELD'S M&A ACTIVITY TAKES ADVANTAGE OF EMERGING TECHNOLOGIES & ECONOMIES

BEP's active M&A calendar underscores its strategic approach to growth. Recent acquisitions, such as the 100% interest in a 136 MW wind portfolio in Brazil and a fully integrated renewable power developer in the U.S. with a 6,100 MW development pipeline, enhance BEP's geographical and technological diversification. These acquisitions are not just about increasing capacity; they are strategic moves to consolidate BEP's market position globally. In contrast, competitors like NextEra Energy Partners and Clearway Energy primarily focus on North America, limiting their exposure to high-growth international markets, but protecting them from sovereign and foreign exchange risks (Exhibit 18).

BEP mitigates foreign currency risk by using foreign currency contracts for 70% of its portfolio, including U.S., Canadian, and Euro exposures, while relying on inflation-linked escalations in power purchase agreements to manage unhedged exposures in South America and Asia. Furthermore, BEP's investment in X-Elio, a solar energy developer, and the acquisition of Westinghouse, a leading nuclear services business, diversify its renewable energy portfolio and enhance its technological capabilities. This aggressive acquisition strategy not only expands BEP's asset base but also integrates diverse renewable technologies, enhancing its operational flexibility and resilience against regional market fluctuations.

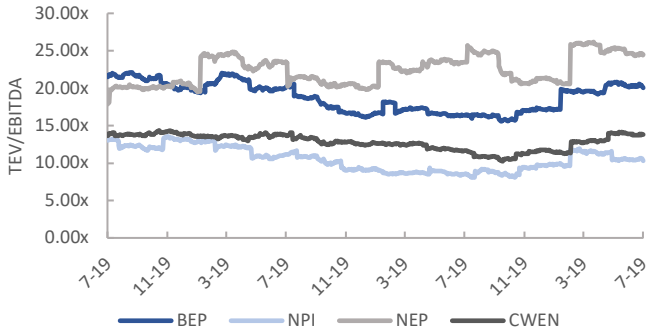
Bringing all these factors together, we maintain a favorable global outlook for renewable energy, supported by substantial policy initiatives and technological advancements driving growth in the sector. In North America, rising electrification, increased data center demand, and electric vehicle adoption are expected to boost electricity sales, providing a robust market for BEP's renewable assets. Europe is set to more than double its renewable capacity by 2030, driven by significant investments in wind and solar energy despite challenges in offshore wind. Asia-Pacific's shift from China to South and Southeast Asia as the growth engine further opens opportunities for BEP, especially with low-cost solar and wind, increasing renewable generation which underpins their operating cash flows (Exhibit 19).

Exhibit 18: Shift in Focus to Higher Growth Economies Highlighted by South American & Asian Assets Now Increasing at Faster Rates



Source(s): Company Filings, VIG Research

Exhibit 19: BEP's Premium EV/EBITDA Ratio Compared to Majority of Its Peers Driven by 12-15% IRR & Growth in FFO at Scale



Source(s): FactSet, VIG Research

Securing Corporate Partnerships Enhances Brookfield's Competitive Edge

FOCUS ON CORPORATE CUSTOMERS

Brookfield Renewable Partners has strategically aligned its growth trajectory with the increasing energy demands of major global technology companies. We believe that this alignment is a key differentiator for BEP, positioning it to capitalize on significant opportunities presented by the digital transformation and AI-driven energy consumption surges. The landmark agreement with Microsoft to deliver over 10.5 gigawatts (GW) of new renewable energy capacity by 2030, alongside it 33 other customers is a testament to BEP's ability to secure long-term, high-value corporate partnerships, at a scale that no other competitor can. Such agreements not only provide BEP with stable, inflation-linked revenue streams but also enhance its credibility and market positioning as a leading provider of clean energy solutions.

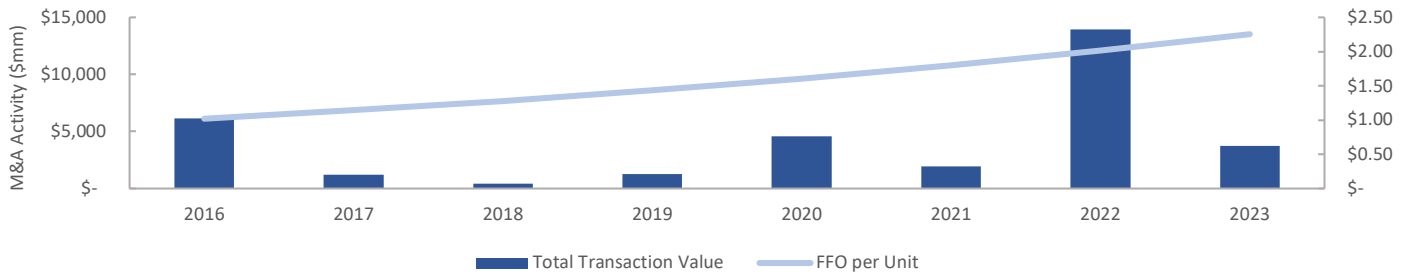
Corporate Power Purchase Agreements (PPAs) have seen significant growth, with global corporate PPA volumes increasing 11-fold from 2016 to 2023. In 2023 alone, 90% of new contracts were signed with corporate customers, highlighting BEP's strategic focus on corporate clients. By 2028, BEP aims for corporate clients to constitute around 45% of its total contracted volume, doubling its generation to corporate customers. In comparison, only Clearway Energy has as diversified a customer base as BEP with 32 customers, but even they don't match BEP's superior scale and generation. Most of Brookfield's competitors such as NEP or Vistra don't seem to focus on tech customers as much, with their huge contracts focused on investor owned utilities (IOUs) such as Pacfiic Gas & Electic Company.

LEVERAGING INDUSTRY TRENDS

The ongoing digitalization and rapid adoption of AI are pivotal factors driving increased electricity demand. Data centers, critical infrastructure for these trends, are projected to consume up to 10% of global electricity by 2030, up from approximately 2% today. This surge necessitates substantial additional renewable energy capacity, presenting a significant growth opportunity for BEP. By focusing on providing 24/7 renewable power solutions, BEP ensures that it meets the stringent sustainability targets of its corporate clients while capitalizing on the robust demand for green energy.

Electricity consumption from data centers is expected to increase from 240 TWh in 2020 to 650 TWh by 2030, according to a GS report, representing a significant portion of the projected 2.4% CAGR in US electricity demand. To support this growth, the renewable energy sector will need to expand significantly. Investments in new renewable energy capacity are critical to meet this rising demand. We believe that BEP is well-positioned to capitalize on these opportunities due to its extensive portfolio and expertise in renewable energy solutions. Brookfield expects to deploy $7-8 billion USD in capital over the next five years, and has over the last five years deploted capital by diverse sources including $2.1 billion USD in investment-grade debt on existing assets, $1.7 billion USD from capital recycling, $2.4 billion USD from strategic privatization and equity issuances, $700 million USD in investment-grade corporate debt, and $500 million USD in preferred equity. This funding has enabled them to flex their private-equity like arm of acquiring and maintaining a portfolio of developers and generators, leading to growth in their pipeline, and more importantly, their Funds From Operations (Exhibit 20). This growth has also been visible through the revenues in their equity-accounted investments, with an increase of $189 million USD from the year before.

Exhibit 20: Strategic M&A Drives a Substantial 12% CAGR FFO per Unit Growth



Source(s): FactSet, Company Filings, VIG Research

BROOKFIELD POSITIONED TO CAPITALIZE ON DIGITALIZATION

The broader trend of digitalization extends beyond data centers to other energy-intensive sectors such as manufacturing and industrial production. These sectors are increasingly adopting AI and automation technologies, further driving electricity demand. For instance, the manufacturing sector in North America is expected to see a 3% annual increase in electricity consumption through 2030 due to automation and digitalization initiatives. By aligning its strategic goals with these industry trends, BEP can secure a larger share of the renewable energy market, particularly through long-term contracts with corporate customers who prioritize sustainability and reliable power sources. Furthermore, the push for electrification in transport and industrial sectors is forecasted to add an additional 1.5% to 2% annual growth in electricity demand in Europe and APAC regions, where BEP has been acquiring major wind and solar portfolios, and building out their asset class.

By leveraging these opportunities, and by showcasing it's ability to handle large corporate customers such as Microsoft and Amazon while still expanding their development pipeline, we believe that BEP is ensuring a continuation of this type of large PPA agreement. While the entire energy industry, particularly renewables, will benefit from the tailwinds of this surge in digitalization and the growth of new economies such as India and South America, BEP's scale and development pipeline position it to take advantage of these trends faster than others.

BEP Investment Risks

SEGMENT OPERATIONAL RISKS

Brookfield Renewable Partners operates across various renewable energy segments, each subject to unique operational risks that can impact performance and revenue stability. In the hydroelectric segment, the company faces risks related to hydrological variability, which can lead to fluctuations in water availability and consequently electricity generation. An example of this is the Sogamoso Hydroelectric Plant in Colombia, which saw significant output reductions during extended dry seasons. Additionally, the segment is vulnerable to strict environmental regulations and complex permitting processes, which can delay new developments or increase operational costs, especially in light of regulatory scrutiny following dam failures like the Oroville Dam incident. Aging infrastructure also adds to the risks, necessitating continuous maintenance and upgrades to ensure safety and efficiency, and the operational expenses could reach unsustainable levels, weighing heavily on the bottom line.

In the wind and solar energy segments, variability in wind speeds and changes in government incentives pose substantial risks. Wind energy production can be unpredictable, as seen in Midwest U.S. wind farms where prolonged low wind speeds resulted in lower-than-expected electricity generation. Solar energy projects are similarly affected by shifts in government policies; for instance, the abrupt withdrawal of solar subsidies in the U.S. in 2023 led to financial difficulties for several utility-scale projects. Both segments also face the risk of technological obsolescence and market competition, which can pressure the financial performance of ongoing and future projects. Additionally, regulatory changes, such as California's 2021 reduction of residential solar incentives, can ripple through the market, affecting the viability of commercial distributed generation projects.

BEP's longstanding reputation of excellence in improving the operational efficiency of companies in this space mitigates any segment risks that could potentially crop up.

The distributed energy and storage segment, which includes small-scale solar, fuel cells, and battery storage facilities, and the sustainable solutions segment, encompassing initiatives such as carbon capture, renewable natural gas production, and investments in nuclear services, face significant regulatory, economic, and technological risks. Regulatory changes can heavily impact incentives for distributed generation, energy storage, and sustainable solutions. A notable example is the 2021 regulatory shift in California, which reduced incentives for residential solar installations and subsequently affected commercial distributed generation projects. Similarly, the 2022 policy shift in the EU, altering carbon credit allocations, significantly impacted the financial performance of several carbon capture and renewable natural gas projects. Both segments are also influenced by fluctuating energy prices and local market conditions, which can affect revenue stability. Moreover, technological advancements pose a risk, as newer, more efficient technologies could render existing solutions obsolete. The financial performance of these initiatives depends on market acceptance and the ability to scale effectively; failure to do so could limit their contribution to Brookfield Renewable's overall financial performance and growth strategy.

HIGH LEVERAGE AND M&A RISKS

Brookfield Renewable's aggressive growth strategy is underpinned by a high leverage model, which introduces considerable financial risks. The company's reliance on substantial debt to finance its extensive portfolio of renewable assets increases its exposure to interest rate fluctuations and potential refinancing challenges, particularly in a rising interest rate environment. High leverage also heightens the risk of financial distress if BEP is unable to generate sufficient cash flow to meet its debt obligations. This situation could lead to higher capital costs, restricted access to financing, or even potential downgrades in credit ratings, all of which would strain BEP's financial health. Furthermore, BEP's operations are capital-intensive, with significant ongoing capital expenditures required for the maintenance, upgrading, and expansion of its renewable energy assets. High operational expenses, particularly in maintaining aging infrastructure across its hydroelectric portfolio, add to the financial burden. If BEP is unable to control costs or if operational expenses rise unexpectedly, this could erode profit margins and negatively impact financial performance. Some expenses they could curtail in the future involve salaries and executive compensation, but reaching economies of scale with many of their investments will reduce the direct operating expenses and directly boost the EBITDA margin.

M&A plays a crucial role in BEP's growth strategy, as the company seeks to expand its asset base and diversify its portfolio. However, the success of this strategy is contingent on BEP's ability to identify and integrate suitable acquisition targets. If BEP fails to continue its M&A activity or if future acquisitions do not perform as expected, the company may struggle to sustain its growth trajectory. This could result in missed revenue targets, reduced economies of scale, and increased financial pressure to service its high debt levels. Moreover, the integration of acquired assets presents its own set of risks, including cultural integration challenges, potential operational inefficiencies, and the need for additional CapEx to bring acquired assets up to BEP's standards. Failure to effectively integrate new acquisitions could lead to diminished returns on investment and further strain on BEP's financial resources.

Recent News

Neone Acquisition

Brookfield's most recent acquisition is of Neone, a renewable power pure play company headquartered in Paris, France. Founded in 2008, it develops, finances, builds and operates solar power plants, onshore wind farms and energy storage solutions. Majority owned by asset manager Impala, Neoen has had outstanding success in France, and internationally, especially in Australia. The acquisition of approximately 53.32% of Neoen's outstanding shares for 6.1 billion euros underscores Brookfield's commitment to expanding its renewable energy footprint in key markets and further solidify its position as the go-to for 24/7 clean energy. Brookfield Renewable expects to invest up to 500 million euros (US$540 million) in the acquisition, funded through its available liquidity.

Neoen has an impressive portfolio of 8.3 GW of operating and in-construction assets across key markets such as France, Australia, and the Nordic region. These assets, which include wind, solar, and battery storage projects, are young and highly contractable. Additionally, Neoen brings on a robust development pipeline of over 20 GW in advanced stages, with more than 10 GW in early development.

The acquisition of Neoen is not just about expanding BEP's asset base; it also brings valuable technological and operational expertise, particularly in battery storage. Neoen has established itself as a global leader in this field, with nearly 2 GW of battery storage either in operation or under construction. As battery storage becomes increasingly critical to managing the intermittency of renewable energy and providing grid stability, Neoen's capabilities in this area will significantly enhance BEP's ability to offer comprehensive clean energy solutions to its customers. This is particularly important as the market for battery energy storage systems (BESS) continues to grow, driven by declining costs and increasing demand for renewable energy storage solutions.

We believe Neoen is a great addition to the European portfolio, a continent whose governments heavily support the expansion of renewable power.

BEP's strategy has long focused on acquiring high-quality platforms that bring not only operational assets but also advanced development pipelines that can be immediately leveraged to meet current market demands. Neoen fits perfectly into this strategy, offering both a substantial operating portfolio and a significant pipeline that can be developed to meet the accelerating demand for renewable energy. This acquisition also highlights BEP's ability to execute large-scale transactions at a time when funding is becoming increasingly scarce for other players in the market, further reinforcing BEP's competitive edge.

In addition to its technological and operational benefits, the Neoen acquisition significantly enhances BEP's market presence in strategic regions. Australia, where Neoen is a key player, has seen rapid growth in renewable energy, particularly in utility-scale solar PV and battery storage. With Neoen's assets and development pipeline in Australia, BEP is well-positioned to capitalize on the country's ongoing energy transition. Similarly, Neoen's strong presence in Europe, especially in the Nordic region, provides BEP with a deeper penetration into these fast-growing renewable markets.

This acquisition also underscores BEP's commitment to scaling its operations in regions where it already has a presence, rather than entering new, untested markets. Neoen's established operations in core markets complement BEP's existing global footprint, filling in strategic gaps and allowing BEP to offer an even more diversified and resilient portfolio of renewable energy solutions.

Finally, the integration of Neoen's assets and capabilities into BEP's portfolio is expected to be immediately accretive, contributing to BEP's financial performance and supporting its goal of delivering double-digit FFO per unit growth. The combination of Neoen's contracted cash flows, advanced development pipeline, and leading-edge battery storage technology provides BEP with enhanced revenue visibility and reduced downside risk, further solidifying its position as a global leader in the renewable energy sector.

Saeta Sale

In line with BEP's asset rotation strategy, we believe the sale of Saeta Yield to Masdar represents an accretive deal, underscoring Brookfield Renewable Partners' disciplined approach to capital recycling and growth. By monetizing Saeta's mature assets, they effectively unlock value and direct capital towards higher-yielding investments. Since acquiring Saeta in 2018 for €1 billion, they worked closely with its management to streamline operations, optimizing its capital structure, and strategically positioning it for growth. The $1.4 billion sale aligns with their strategy of executing value-accretive M&A, maintaining their focus on asset recycling, and reinforcing our commitment to the long-term scalability of our renewable portfolio.

The Saeta portfolio is not expansive enough to make a significant impact on BEP's generation capabilities, and we believe that their acquisition of Neone will more than make up for it in the European market.

Valuation and Key Estimates

Our base case valuation of BEP implies a $45.31/share based on our blended valuation (DCF, Comparable Company Valuation). This implies a 29% upside to the current share price. Valuation metrics for the electrical utilities sector is still developing, and is even more nuanced when taking into account BEP's unique business model and operation. As such, the market for renewable power is expanding quickly, as is BEP's scope.

This is why we are using a blended approach that incorporates a long-term DCF and a comparable company valuation. Our target price is based in part on our DCF valuation of unlevered free cash flow to equity of $42.67/share, of which we apply a 75% weight in arriving at our $45.31 target price.

We note that we use a 7.42% discount rate, and a 1.5% terminal growth rate. Our valuation methodology also includes an P/CF multiple method, where we take our estimated 2025E P/CF ratio and apply it to our estimated 2025E CFPS to arrive at an implied share price. We have also listed out a group of comparable companies and their respective group average multiples.

The downside scenario of $28.36 is based off of a terminal growth rate of 0.75%, and a discount rate of 8.75%. This downside event would be in the case of an incredibly inflationary environment, more so than the one BEP has managed to maneuver through, as well as incredibly high costs and supply chain disruptions which would lead to the lower growth rate. It would also be assumed that do the even higher inflationary environment, BEP's access to their usual M&A calendar would be reduced, thus reducing revenues and expansion capabilities.

The upside scenario of $54.77 is based off of a terminal growth rate of 1.75%, and a discount rate of 7.25%. This upside event would be in the case of incredible synergies captured through economies of scale and various other M&A related ventures, as well as an assumption that the tech industry and other global energy demand drivers would not have engineered a less energy intensive cooling method or processing power. The assumption would also be that the economy would be in a very ideal state, with the economy still producing at capacity with policy rates lower than they currently are.

Exhibit 21: Calculation of Our DCF Price Target

Discounted Cash Flow Valuation (Truncated)

	2022A	2023A	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
FFO	$1,380.95	$1,504.62	$1,647.56	$1,795.02	$1,945.80	$2,098.54	$2,251.74	$2,403.73	$2,552.76	$2,696.99	$2,834.54	$2,963.51	$3,082.05
YoY Growth %	*7.60%*	*8.96%*	*9.50%*	*8.95%*	*8.40%*	*7.85%*	*7.30%*	*6.75%*	*6.20%*	*5.65%*	*5.10%*	*4.55%*	*4.00%*
CapEx	$3,009.24	$3,859.79	$2,701.85	$2,566.76	$2,541.09	$2,566.50	$2,592.17	$2,618.09	$2,644.27	$76.00	$76.00	$76.00	$76.00
YoY Growth %	11.34%	28.26%	-30.00%	-5.00%	-1.00%	1.00%	1.00%	1.00%	1.00%				
After-Tax Interest Expense	$1,224.00	$1,627.00	$1,952.40	$2,245.26	$2,469.79	$2,593.28	$2,619.21	$2,645.40	$2,671.85	$2,698.57	$2,725.56	$2,752.81	$2,780.34
YoY Growth %	24.77%	32.92%	20.00%	15.00%	10.00%	5.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Unlevered Free Cash Flow	**-$404.29**	**-$728.17**	**$898.11**	**$1,473.52**	**$1,874.49**	**$2,125.31**	**$2,278.77**	**$2,431.04**	**$2,580.34**	**$5,319.56**	**$5,484.09**	**$5,640.32**	**$5,786.39**
Discount Rate	**7.42%**												

Growth In Perpetuity	
Terminal Growth Rate	1.50%
Terminal Value	$99,250.62
Discounted Terminal Value	$45,175.86
Implied Enterprise Value	$66,410.09
Implied Market Cap	$28,339.49
Implied Share Price	**$42.67**

Source(s): Company Filings, VIG Research

Exhibit 22: WACC & DCF Sensitivity Analysis

WACC Schedule

Market Risk Premium	6.00%
Beta	0.85
Adjusted Market Risk Premium	5.10%
Add: Risk Free Rate of Return	3.52%
Cost of Equity	**8.62%**

Target Debt to Total Capital Ratio	86.58%
Weighted Cost of Equity	1.16%
Cost of Debt	8.71%
Effective Tax Rate	17.00%
After-Tax Cost of Debt	7.23%
Weighted After-Tax Cost of Debt	6.26%
WACC	**7.42%**

Sensitivity Analysis

		WACC									
	$42.67	**5.75%**	**6.25%**	**6.75%**	**7.25%**	**7.75%**	**8.25%**	**8.75%**	**9.25%**	**9.75%**	**10.25%**
	0.25%	$69.33	$59.57	$51.17	$43.86	$37.41	$31.69	$26.57	$21.95	$17.77	$13.96
	0.50%	$72.12	$61.80	$52.98	$45.34	$38.64	$32.72	$27.44	$22.69	$18.40	$14.50
	0.75%	$75.20	$64.23	$54.94	$46.93	$39.96	$33.82	$28.36	$23.47	$19.07	$15.08
	1.00%	$78.59	$66.90	$57.06	$48.66	$41.37	$34.99	$29.34	$24.30	$19.78	$15.68
TGR	**1.25%**	$82.36	$69.83	$59.38	$50.52	$42.90	$36.25	$30.39	$25.18	$20.52	$16.32
	1.50%	$86.58	$73.06	$61.92	$52.55	$44.54	$37.60	$31.51	$26.12	$21.32	$16.99
	1.75%	$91.32	$76.66	$64.72	$54.77	$46.32	$39.05	$32.71	$27.13	$22.16	$17.71
	2.00%	$96.69	$80.68	$67.81	$57.19	$48.26	$40.62	$34.00	$28.20	$23.06	$18.47
	2.25%	$102.84	$85.21	$71.24	$59.86	$50.38	$42.33	$35.39	$29.34	$24.01	$19.27

Source(s): CapIQ, Company Filings, VIG Research

Exhibit 23: BEP Comparable Company Valuation

BEP Comparable Company Valuation

Comparable Company Sector	Raw Weighting	Mean EV/EBITDA 2024E	Mean EV/EBITDA 2025E	Mean P/CF 2024E	Mean P/CF 2025E
Large Cap	60%	18.74x	14.27x	18.04x	15.96x
Mid Cap	40%	9.44x	9.43x	5.94x	5.96x
Small Cap	0%	9.69x	8.70x	8.40x	6.16x
Weighted		15.02x	12.34x	13.20x	11.96x

Estimated Company Financials

($ in Millions)	2022A	2023A	2024E	2025E
EBITDA	$2,709.55	$2,881.61	$3,264.00	$3,586.00
% Growth		6.35%	13.27%	9.87%
CFPS	$2.81	$3.02	$3.36	$4.45
% Growth		7.31%	11.12%	32.62%
Net Debt	$32,317.00	$38,070.60	$31,035.60	$34,807.30

Shares Outstanding	664.159829
P/CF Imp. Price	$53.24
Final Target Price	**$53.24**
Blended	**$45.31**

Source(s): CapIQ, Company Filings, VIG Research

Exhibit 24: BEP Comparable Companies by Market Cap

BEP Comparable Companies

Company	Ticker	Price	Market Cap	Dividend Yield	EBITDA 2024E	EBITDA 2025E	EV/EBITDA 2024E	EV/EBITDA 2025E	EPS 2024E	EPS 2025E	P/CF 2024E	P/CF 2025E
Large Cap												
Constellation Energy	CEG-US	$359.42	$112,385.82	0.97%	$6,308.62	$6,905.10	20.11x	18.37x	$11.23	$12.46	18.07x	17.55x
GE Vernova	GEV-US	$419.28	$115,576.56	-	$2,914.20	$4,599.76	36.98x	23.43x	$3.76	$9.69	33.07x	31.79x
Vistra	VST-US	$166.42	$57,176.74	2.13%	$6,758.47	$8,000.79	12.76x	10.78x	$5.95	$9.11	11.35x	8.67x
Centrais Eletricas	ELET3-BR	$8.77	$20,484.00	4.30%	$4,985.62	$5,685.70	5.14x	4.50x	$0.72	$0.95	9.68x	5.86x
Large Cap Mean	-	-	-	-	-	-	18.74x	14.27x	-	-	18.04x	15.96x
Large Cap Median	-	-	-	-	-	-	16.43x	14.58x	-	-	14.71x	13.11x
Mid Cap												
Clearway Energy C	CWEN-US	$38.45	$7,689.75	5.62%	$1,632.83	$1,705.41	12.82x	12.28x	$0.78	$0.79	5.94x	6.71x
NextEra Energy Partners	NEP-US	$26.81	$5,013.75	11.10%	$2,772.13	$2,803.42	3.31x	3.27x	$2.78	$3.41	2.55x	2.60x
Ormat Technologies	ORA-US	$109.61	$6,626.12	0.63%	$739.47	$825.79	12.66x	11.33x	$2.58	$3.27	12.09x	10.96x
Northland Power	NPI-CA	$20.75	$5,363.67	4.99%	$1,306.06	$1,337.94	8.82x	8.61x	$1.73	$1.39	4.80x	4.67x
Algonquin Power & Utilities	AQN-CA	$6.64	$5,092.81	6.94%	$1,742.54	$1,430.73	9.59x	11.68x	$0.63	$0.47	4.31x	4.85x
Mid Cap Mean	-	-	-	-	-	-	9.44x	9.43x	-	-	5.94x	5.96x
Mid Cap Median	-	-	-	-	-	-	9.59x	11.33x	-	-	4.80x	4.85x
Small Cap												
Atlantica Sustainable	AY-US	$30.75	$3,571.60	8.28%	$1,144.83	$1,183.44	8.79x	8.50x	$0.55	$0.88	6.27x	5.73x
Boralex A	BLX-CA	$33.42	$3,434.44	1.96%	$700.75	$734.41	8.60x	8.21x	$1.05	$1.12	7.69x	7.19x
ReNew Energy Global A	RNW-US	$7.56	$2,820.74	-	$1,246.42	$1,503.86	9.95x	8.25x	$0.09	$0.42	12.94x	6.83x
Innergex Renewable Energy	INE-CA	$8.92	$1,812.49	7.83%	$731.78	$848.16	11.41x	9.84x	($0.15)	$0.11	6.72x	4.90x
Small Cap Mean	-	-	-	-	-	-	9.69x	8.70x	-	-	8.40x	6.16x
Small Cap Median	-	-	-	-	-	-	9.37x	8.38x	-	-	7.20x	6.28x
Brookfield Renewable Partners	**BEP.UT-CA**	**$35.26**	**$23,382.98**	**5.29%**	**$3,268.80**	**$3,566.06**	**18.29x**	**16.77x**	**($0.04)**	**$0.85**	**10.10x**	**7.93x**
Unweighted Mean	**-**	**-**	**-**	**-**	**-**	**-**	**12.38x**	**10.70x**	**-**	**-**	**10.42x**	**9.10x**
VIG Estimates	**-**	**-**	**-**	**-**	**-**	**-**	**15.02x**	**12.34x**	**-**	**-**	**13.20x**	**11.96x**

Source(s): CapIQ, FactSet, Company Filings, VIG Research

Management Team & Executive Compensation

Management

Connor Teskey, Chief Executive Officer of the Service Provider – Connor Teskey (age 36) is a Managing Partner of Brookfield, and the President of Brookfield Asset Management. Mr. Teskey has oversight of Brookfield Renewable's growth and capitalization, on a global basis. He is responsible for investments, operations and the expansion of the Renewable Power and Transition business. Mr. Teskey joined Brookfield in 2012 and has held a variety of investment and management roles. Prior to Brookfield, he worked in corporate debt origination at a Canadian bank. Mr. Teskey holds a Bachelor of Business Administration (Honors) from the University of Western Ontario. According to interviews with the current CEO of Brookfield Asset Management Bruce Flatt, he is also being groomed to be the successor once he retires.

Wyatt Hartley, Chief Financial Officer of the Service Provider – Wyatt Hartley (age 43) is a Managing Partner of Brookfield. He directs all capital markets activities, accounting, financial reporting, treasury, taxation and investor relations, on a global basis. Prior to joining Brookfield in 2010, Mr. Hartley worked at a big-four accounting firm. Mr. Hartley holds a Bachelor of Science from Queen's University and is a member of the Chartered Professional Accountants of Canada (CPA, CA).

Jennifer Mazin, General Counsel of the Service Provider – Jennifer Mazin (age 50) is a Managing Partner of Brookfield. Ms. Mazin provides oversight of Brookfield Renewable's legal matters on a global basis, including transactional execution, corporate governance and compliance. Prior to joining Brookfield in 2014, Ms. Mazin was Assistant General Counsel at a large global mining company and worked at a New York-based law firm, where she focused on cross-border corporate finance transactions, mergers and acquisitions as well as governance and disclosure requirements. Ms. Mazin received her Bachelor of Arts from the University of Western Ontario and her law degree from the University of Toronto. She is called to the bars of the State of New York and the Province of Ontario.

Julian Deschâtelets, Treasury of the Service Provider – Julian Deschâtelets (age 49) is a Managing Partner in Brookfield's Renewable Power & Transition Group, responsible for the capital markets and treasury function globally. He previously held several roles in corporate and project finance. Prior to joining Brookfield in 2011, Mr. Deschâtelets worked as a project finance manager at Export Development Canada. Mr. Deschâtelets holds a Bachelor of Business Administration in Finance degree from L'École des Hautes Études Commerciales and has been a CFA charterholder since 2002.

F. Mitchell Davidson, Chief Executive Officer, U.S. Operations – Mitch Davidson (age 61) is a Managing Partner and Head of U.S. Asset Management in Brookfield's Renewable Power & Transition Group. In this role, he is responsible for overseeing portfolio companies and leading the growth of our platform in the United States. Prior to joining Brookfield in 2018, Mr. Davidson held several senior executive positions with energy companies, most recently serving as President and CEO of NextEra Energy Resources. Before that, he held executive positions at Duke Energy North America, Entergy-Koch LP and Entergy Power Marketing Inc. Mr. Davidson holds a Master of Business Administration degree from the University of Houston, Clear Lake and a Bachelor of Arts degree from Southwest Texas State University.

Compensation

Executive compensation at BEP consists of a base salary, annual management incentive plan awards ("Cash Bonus") and participation in long-term incentive plans. Base salaries deliver the only form of fixed compensation for the NEOs and are not intended to be the most significant component of their compensation. All of the following figures are in USD.

Base Salaries – Base salaries of the NEOs ("Named Executive Officers) are determined and approved by Brookfield. Base salaries tend to remain fairly constant from one year to another unless the scope and responsibility of a position has changed.

Cash Bonus & Long-Term Incentive Planes – Brookfield Renewable's Cash Bonus and long-term incentive plans are designed to reflect the company's focus on long-term decision-making and value creation.

Cash Bonus & Long-Term Incentive Planes – Brookfield Renewable's Cash Bonus and long-term incentive plans are designed to reflect the company's focus on long-term decision-making and value creation. Unlike traditional incentive structures that rely on formulaic calculations based on specific short-term targets, these plans are discretionary and primarily determined by evaluating the progress in executing Brookfield Renewable's overall strategy, as well as the performance of the business. This approach ensures that the management's interests are closely aligned with those of Brookfield's shareholders, as a significant portion of their compensation is tied to the value of Brookfield's shares. The incentives also consider contributions to business strategy, operational performance, and governance practices, with the goal of encouraging a long-term focus and ensuring that the company attracts and retains highly qualified executives. There are four types of incentive plans: Management Share Option Plans (MSOP), Deferred Share Unit Plan (DSUP), Restricted Stock Plans, and Escrowed Stock Plans.

Key Accomplishments – Listed below are the key accomplishments that drove BEP's business plan and heavily influenced the cash bonus and long-term incentive plan awards received.

- BEP, with its institutional partners, acquired the remaining 50% of X-Elio Energy S.L. for a total of $893 million, $76 million net to BEP.
- BEP, with its institutional partners, acquired a fully integrated developer and operator of renewable power assets in the United States for $1.08 billion, $308 million net to BEP.
- BEP with its institutional partners, and in partnership with Cameco Corporation, acquired one of the world's largest nuclear services businesses for $4.37 billion, $442 million net to BEP.
- BEP, with its institutional partners, acquired a leading independent UK renewables developer for $625 million, $296 million net to BEP.

Exhibit 25: BEP Executive Compensation Summary, 2023

Name	Position	Salary	Bonus	Restricted Shares	Long-Term Incentive Plans	Escrowed Shares	Options	All Other Compensation	Total
Connor Teskey	Chief Executive Officer of the Service Provider	$870,870	$870,870	$2,835,040	$22,510	$4,362,851	$0	$64,757	$9,026,898
Wyatt Hartley	Chief Financial Officer of the Service Provider	$444,660	$444,660	$0	$0	$0	$533,646	$29,809	$1,452,775
Julian Deschâtelets	Treasury of the Service Provider	$352,023	$352,023	$0	$9,488	$0	$281,213	$6,785	$1,001,532
Jennifer Mazin	General Counsel of the Service Provider	$481,715	$481,715	$0	$0	$0	$486,037	$30,254	$1,479,721
F. Mitchell Davidson	Chief Executive Officer, U.S. Operations	$725,000	$725,000	$0	$0	$0	$500,427	$37,168	$1,987,595

Source(s): Company Filings, VIG Research

Please read disclosures/risk and liability information beginning on page 22, including Analyst information on page 23.

COMPANY DESCRIPTION

Brookfield Renewable Partners L.P. owns a portfolio of renewable power generating facilities primarily in North America, Colombia, and Brazil. The company generates electricity through hydroelectric, wind, solar, distributed generation, and pumped storage, as well as renewable natural gas, carbon capture and storage, recycling, cogeneration biomass, nuclear services, and power transformation. Brookfield Renewable Partners Limited operates as the general partner of Brookfield Renewable Partners L.P. The company was formerly known as Brookfield Renewable Energy Partners L.P. and changed its name to Brookfield Renewable Partners L.P. in May 2016. Brookfield Renewable Partners L.P. was founded in 1999 and is based in Toronto, Canada. Brookfield Renewable Partners L.P operates as a subsidiary of Brookfield Corporation. The company is dedicated to sustainability and aims to drive the global transition to renewable energy by investing in high-quality renewable power assets and leveraging its operational expertise to optimize performance and deliver long-term value to its stakeholders.

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(MP3): Expected to perform generally in line with the respective sector over the next 12 months. Underperform (MU4): Expected to underperform the respective sector over the next six to 12 months and should be sold. Suspended (S): The rating and price target have been temporarily suspended. This may be due to market events that have made coverage impractical, or to comply with applicable regulations or firm policies in certain circumstances. The previous rating and price target are no longer effective and should not be relied upon.

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Company-Specific Risk Factors

Brookfield Renewable Partners: We view Brookfield Renewable Partners as a risky investment based on the inherent volatility and risks associated with the renewable energy industry. These risks include fluctuations in market conditions, regulatory changes, technological advancements, and operational challenges. Specific risks to BEP include changes in government policies or regulations related to renewable energy incentives, tariffs, and environmental laws, which could adversely affect operations. Market prices of electricity, influenced by supply and demand dynamics, economic conditions, and fuel costs, can lead to revenue volatility. BEP's portfolio of renewable energy assets is also subject to operational risks such as equipment failures, natural disasters, and other disruptions, which can impact reliability and efficiency. Furthermore, BEP's growth strategy relies on access to capital for new investments and refinancing existing debt; therefore, changes in interest rates, credit market conditions, and investor sentiment could affect the cost of capital and ability to finance projects. Brookfield Renewable Partners' commercial success is fundamentally linked to its ability to manage these risks effectively, maintain its competitive edge, and adapt to the evolving regulatory and economic landscape.