Brookfield Renewable Partners

Utilities
TSX: BEP.UN | NYSE: BEP
Market Outperform | Buy

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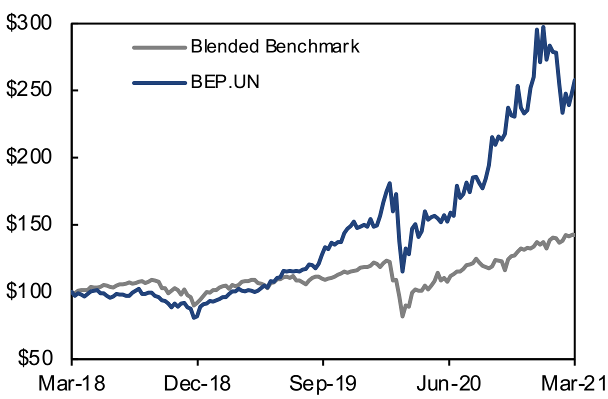
Return on Investment	
Current Share Price	$42.65
Target Price	$51.00
Dividend Yield	3.05%
Holding Period Return	23%
Conviction Rating	2

Market Profile	
52-Week Range	$16.04 - $49.41
Market Capitalization (US$mm)	$27,552
Net Debt (US$mm)	$22,650
Enterprise Value (US$mm)	$50,202
Beta (5-Year Monthly)	0.70

Metrics	2020A	2021E	2022E
Generation (GWh)	26,052	31,632	32,282
Revenue (US$mm)	$2,047	$2,634	$2,785
EBTIDA (US$mm)	$1,614	$1,866	$1,947
EV/EBITDA	21.9x	26.9x	25.8x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Investment Thesis Summary

- Favorable tailwinds with global decarbonization and electrification trends and increased institutional investment in renewables
- Robust hydro portfolio with perpetual assets, strong margins, and storage capacity to capture better pricing
- Best in class M&A and a highly-capable operator with significant development expertise

Business Description

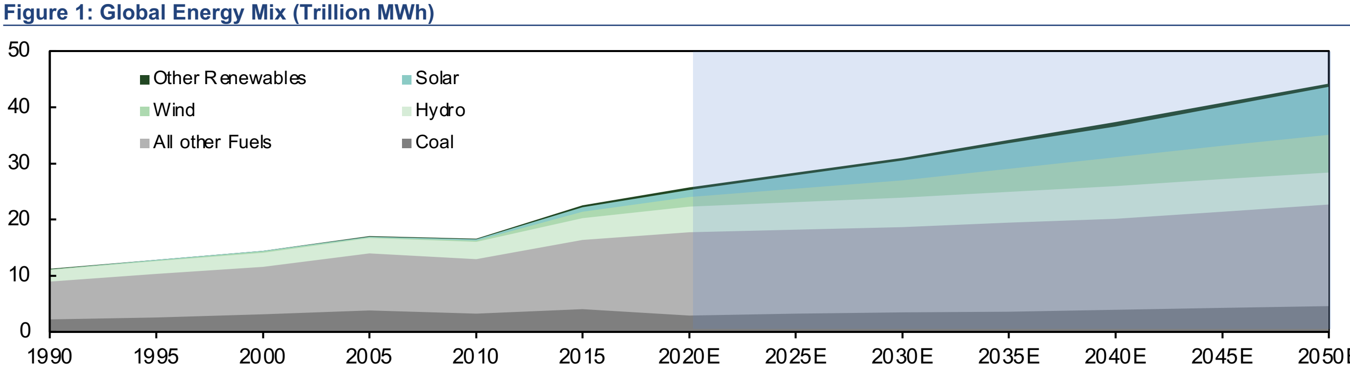
Brookfield Renewable Partners (NYSE: BEP), formerly Brookfield Energy Partners, operates one of the world's largest renewable energy platforms. BEP's portfolio consists of over 20,000 megawatts of capacity and 843 generating facilities in North America, South America, Europe, and Asia. BEP serves 24 energy markets in 14 countries. It is 48% owned by Brookfield Asset Management (TSX: BAM.A), which the CPMT currently holds at a 2 conviction.

Industry Overview

Shifting Economics: The economics and market of renewable energy have changed substantially in recent years. The Levelized Cost of Energy (LCOE) represents the cost per megawatt-hour (MWh) of building and operating an asset over an assumed life. This metric indicates the relative competitiveness of different generating technologies with key inputs including assumed utilization rate, useful life, capital costs, tax rates, and O&M costs. The LCOE for both wind and solar plants has considerably decreased, making them competitive with conventional energy on an unsubsidized basis. This economic development, in combination with a shifting ESG-focused institutional investor sentiment and favorable government policies, has created substantial tailwinds for the renewable energy market.

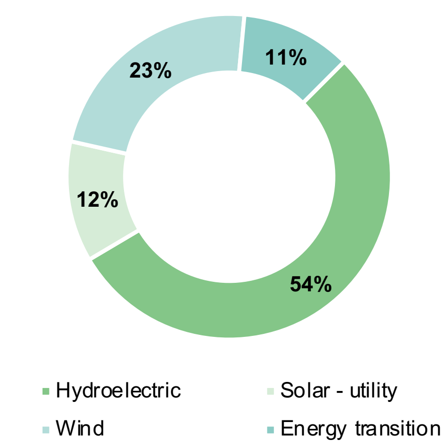
Energy Transition: Climate change has created a need for a shift in the way energy is generated. Multinational agreements, like the Paris Climate Agreement, and institutional investment mandates continue to shift to meet certain carbon or ESG standards. These changing mandates have created a higher demand for renewable energy investments and financing. The generation of different forms of renewable energy (Figure 1) is forecasted to grow considerably.

Figure 1: Global Energy Mix (Trillion MWh)



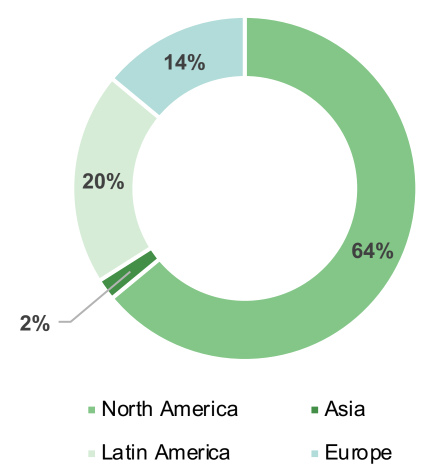
Source: U.S. Energy Information Administration

Figure 2: Generation Mix Breakdown



Source: Company Filings

Figure 3: Geographical Exposure



Source: Company Filings

Figure 4: Debt Rating vs Peers

Rating	BEP	NPI	AQN	INE	NEP
BBB+	✓				
BBB		✓			
BBB-			✓		
BB+				✓	
BB					✓

Source: S&P Capital IQ

Generation Segments: The main forms of renewable energy generation are: 1) wind; 2) solar; and 3) hydroelectric. Each technology is suited to generate during certain environmental conditions. For instance, solar can only produce in the daytime. This feature is called the capacity factor. Wind, solar, and hydroelectric produce at average capacity factors of 34.8%, 24.5%, and 39.1% respectively. The higher capacity factor of hydroelectric means it has historically sold at a premium multiple.

Industry Peers: BEP's peer group includes other renewable generation companies and renewable utility providers. For our analysis, we included Northland Power (TSX: NPI), Algonquin Power & Utilities (TSX: AQN), TransAlta Renewables (TSX: RNW), Innergex Renewable Energy (TSX: INE), and NextEra Energy Partners (TSX: NEP) as comparable companies. While there are many operators in the renewable energy and utility space, BEP is the world's largest pure-play renewable power company.

Company Strategy

BEP employs a unique long-term strategy that targets 12-15% returns to shareholders on invested capital and long-term recurring contract revenues. This is exemplified by its average power purchase agreement (PPA) term of 14 years, 84% of which is contracted. This includes over 600 high-quality counterparties that are primarily comprised of public power authorities and utilities. This diversification creates downside protection that is not available to most of its peers. These investments focus on complex or large-scale transactions with improved cash flows and de-risked investments through sustainable operating principles, allowing BEP to operate as a stable sponsor of its generation facilities. Recently, the Company's guidance for investment increased to a targeted annual equity deployment of US$800mm-US$1B. BEP also emphasizes a limited foreign exchange exposure with 75% of its in-place contracts fully hedged.

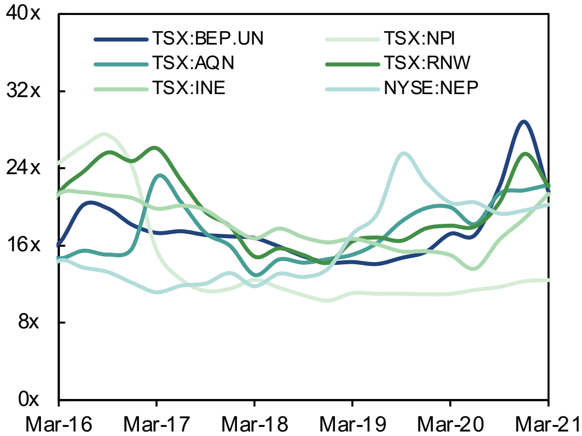
Mandate Fit

Quality Management: BEP is owned through a majority ownership stake (~48%) by Brookfield Asset Management (TSX: BAM.A), a high-quality asset manager and parent company of various Brookfield investment vehicles. BEP's board and executive team exhibit an excellent track record of relevant industry experience and are experts in their field. However, since some members of BEP's leadership maintain board seats in other Brookfield companies, this poses an agency risk for investors that should be considered.

Competitive Advantage: BEP has a strong competitive advantage in both its size and expertise. BEP offers stable, diversified, and high-quality cash flows through long-term contracts with a weighted average remaining term of 14 years. Additionally, BEP's hydro assets generally garner premium valuations on account of their perpetual nature, low maintenance and operating costs, and their ability to store power to capture better pricing. BEP's global scale, multi-technology capabilities, and strategic relationship with BAM.A allows the Company to maintain access to both small and large-scale M&A opportunities. With a 23,000 MW proprietary development pipeline and an increased focus on solar generation, BEP is poised for tremendous future growth.

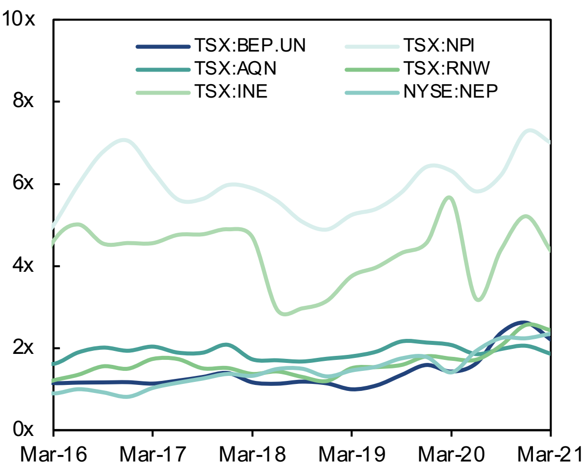
Strong Balance Sheet: Brookfield Renewable Partners has one of the strongest balance sheets in its peer group. It currently has the highest credit rating out of its peers with an investment-grade credit rating of BBB+ by S&P. As of its year-end, BEP had US$16.9B in long-term debt with an average duration of 14 years.

Figure 5: NTM EV/EBITDA Multiples vs Peers



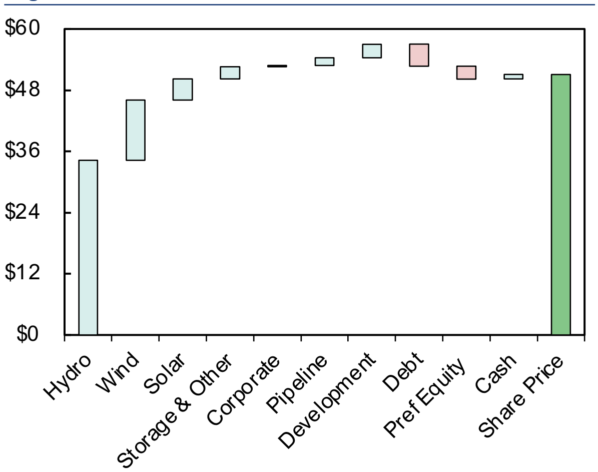
Source: S&P Capital IQ

Figure 6: P/BV Multiples vs Peers



Source: S&P Capital IQ

Figure 7: SOTP Valuation Waterfall



Source: CPMT Estimates

Also, 85% of its debt is non-recourse. This is paired with an interest coverage ratio of 2.0x, which is the lowest the Company has demonstrated in the last 4 years. Additionally, BEP has US$3.4B of available liquidity.

Growing Free Cash Flow: BEP has demonstrated excellent growth in both unlevered and levered free cash flow. Over the last five years, levered free cash flow has grown at a 33% CAGR. Since the Company's inception, BEP has had consistent distributions that have grown at a 6% CAGR over the last 20 years. This is in line with management's targeted growth average of 5% to 9% annually.

ESG

The carbon reduction attributable to renewable energy makes BEP a global leader in ESG standards. This is exemplified by its addition to the TSX Renewable and Clean Tech Index. Additionally, BEP is a leader in partnering with institutions to help them decarbonize. The energy contracts they make with companies effectively "avoid" the carbon emissions that would be associated with other sources of power. For instance, the BEP provides 96% of JP Morgan's New York office electricity and has similar partnerships with multiple other large organizations. In total, the amount of carbon BEP helps avoid annually is equivalent to 12 million vehicles, 1 billion trees planted, or 2 times London, England's annual emissions. Socially, BEP maintains a social license to operate in its communities and continues to do this through partnerships and programs that give back directly to those communities.

Investment Risks

As an operator in a rapidly changing industry, an investment in BEP would carry inherent risks. BEP may not be able to replace expiring PPA agreements with similar terms and hydrology, wind, and irradiance could adversely affect the volume of electricity generated. BEP also assumes the risk associated with the creditworthiness of the counterparties in its long-term energy contracts. Moreover, since BAM maintains a majority ownership stake in the Company, this management structure poses an agency risk associated with BAM's management acting in the best interest of BEP shareholders. Finally, global market competitiveness and capital inflows to the renewable energy space may compress long-term returns for BEP and create a market that provides lower returns than seen today.

Valuation and Investment Thesis

The CPMT derived a target price of $51, which corresponds to an implied return of 23% when combined with BEP's dividend yield of 3.05%. Our target price is based on a sum-of-the-parts valuation to reflects BEP's diversified asset base (Figure 7). This price target implies a 22.6x weighted-average EV/2022E EBITDA multiple. This valuation is at a premium to its peer group, which we believe is warranted given Brookfield's competitive advantage highlighted by its large proportion of hydro generation, excellent track record as a capable operator, and development expertise. Furthermore, BEP is the only pure-play operator in North America with global access, has an investment-grade credit rating, and has access to M&A of all scale. Furthermore, its size advantage and management expertise make BEP one of the best names in our investment universe to take advantage of the energy transition. We believe the Company's demonstration of strong fundamental financial metrics and alignment with the CPMT's investment mandate makes it an excellent addition to the portfolio. We are recommending entering a position with Brookfield Renewable Partners at a 2 conviction.