Buy Capital Power Corporation After a Rare 20% Drop

Description

Since the beginning of the year, shares of **Capital Power Corporation** (TSX:CPX) are down nearly 20% versus a mere 1% drop in the TSX overall. This is the fastest shares have dropped this much over the firm's entire trading history. In no previous year have shares fallen 20% or more.

Is this a rare buying opportunity for what has otherwise been a fairly stable company?

A consistent dividend payer

As an independent power producer, Capital Power acquires, develops, and operates power generation facilities in Canada and the United States. It generates electricity from coal, natural gas, wind, solar, and landfill gas. By contracting out their power generation in advance, the company secures reliable cash flows that can be distributed to shareholders.

By 2017, the company expects to generate nearly $400 million in cash flows from already contracted sales. Even after paying dividends and reinvesting back into the business, Capital Power still anticipates generating roughly $200 million in excess cash flow this year alone. Strong fundamentals have allowed the company to pay a dividend every year since its IPO, with the payout recently being raised by 8% in September 2014.

A diversified revenue stream

Many power generators are largely reliant on a single source of fuel. Capital Power, meanwhile, generates power from a variety of sources.

Roughly a third of production is from natural gas, with a significant portion of these volumes sold on a contracted 20-year purchasing agreement. Another third of production stems from coal. While coal power has some headline risk due to pollution concerns, Capital Power operates some of the cleanest coal units in Canada, with an average remaining plant life of 43 years. This gives them a strong cost position, with a majority of coal power sold through a contracted power purchasing agreement set for renewal in 2020.

The rest of Capital Power's production base is from renewables such as hydropower, wind power, and landfill gas reclamation. The company owns and operates one of the largest wind farms in Alberta and is able to sell renewable energy credits into the California market under long-term contracts.

A fantastic hedger

While the stock is under pressure due to lower power-selling prices, the company has shown a strong ability to navigate pricing pressures in the past. The company typically hedges a portion of its production, with about 50% of 2016's power production hedged at fairly attractive prices.

Over the past five years, the company has had an average realized power price 21% higher than spot prices due to skillful hedging. With power prices hitting multi-year lows, expect Capital Power to outperform competitors.

A solid dividend at 20% off

After the small sell-off, Capital Power shares are currently yielding over 6.3%. With a strong dividend history and an encouraging cash flow outlook, investors shouldn't be worried about its safety. If you're looking for dividend income that you can rely on, Capital Power is for you.

CATEGORY

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2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)

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Date
2025/08/26
Date Created
2015/07/08
Author
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