Why Capital Power Corp. Surged 4.7% on Wednesday

Description

Capital Power Corp. (TSX:CPX), one of North America's largest independent power producers, announced its second-quarter earnings results on Wednesday morning, and its stock responded by rallying 4.7% in the day's trading session. Let's take a closer look at the results, two important announcements in the release, and the fundamentals of its stock to determine if we should consider buying into the rally or wait for it to subside.

Breaking down the Q2 results

Here's a quick breakdown of eight of the most notable statistics from Capital Power's three-month period ended on June 30, 2017, compared with the same period in 2016:

Metric	Q2 2017	Q2 2016	Change
Revenues and other income	$201 million	$226 million	(11.1%)
Adjusted EBITDA	$96 million	$108 million	(11.1%)
Normalized earnings attributable to shareholders	$26 million	$29 million	(10.3%)
Normalized earnings per share	$0.27	$0.30	(10%)
Net operating cash flow	$78 million	$70 million	11.4%
Adjusted funds from operations	$47 million	$79 million	(40.5%)
Electricity generation (gigawatt hours)	3,674	3,707	(0.9%)
Generation facility availability	94%	90%	400 basis points

Dividends? Yes, please!

Capital Power's earnings weren't all that great, but it did make two very shareholder-friendly moves in regard to its dividend.

First, it announced a 7.1% hike to its quarterly dividend to $0.4175 per share, and the first payment at this increased rate will be made on October 31 to shareholders of record at the close of business on September 29.

Second, it announced an extension to its dividend-growth program. It is now calling for annual growth of approximately 7% through 2020.

What should you do with Capital Power's stock now?

The second quarter was nothing to write home about for Capital Power, but its dividend hike and the extension of its dividend-growth program were very bullish announcements, and I think those announcements are what ignited the 4.7% rally in its stock. With this being said, I think the stock still represents a very attractive long-term investment opportunity for two primary reasons.

First, it's still undervalued. Capital Power's stock still trades at just 18 times fiscal 2017's estimated earnings per share of $1.41 and only 17.4 times fiscal 2018's estimated earnings per share of $1.46, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 29.2. The company is also expected to grow its earnings at an average rate of about 4% over the long term, which is pretty good for a power producer.

Second, it has an excellent dividend. Capital Power now pays an annual dividend of $1.67 per share, which gives its stock a very generous 6.6% yield. It's also important to note that the company's two dividend hikes in the last 13 months have it on pace for 2017 to mark the fourth consecutive year in which it has raised its annual dividend payment, and its dividend-growth program calls for annual growth of approximately 7% through 2020, making it one of my favourite dividend stocks in the energy sector today.

With all of the information provided above in mind, I think Foolish investors should consider making Capital Power a core holding today.

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