TFSA Investors: This Top Dividend Stock Is on Sale and Yields Almost 7%!

Description

Dividend stocks are a great way to add tax-free income to your TFSA account, and when share prices drop, there is an opportunity to lock in high yields. However, if you wait too long and the stock goes back up in price, the yield will go back down.

Capital Power Corp. (TSX:CPX) has seen its share price drop 6% in the past month, and it could be a great opportunity to pick up this dividend stock on the way down. As a result of the drop in price, the stock now yields a dividend of about 6.8% annually.

Let's have a closer look at the company to see whether it is a good value at this price or if a further drop in price is around the corner.

The company has struggled to find growth

The power producer has operations across North America, and its last quarter it saw a 12% drop in revenue from the prior year, but year-to-date sales are down less than 4%. In its last fiscal year, Capital Power's revenue was down just 2% from 2015, and it has failed to see any sustained growth in the past three years. Although the company has recently struggled to grow its revenue, there are many opportunities for it to build on its customer base.

The shares trade at a low multiple to earnings and are below book value

Capital Power trades at a price-to-earnings multiple of less than 11, which is less than the 20 times earnings that **Fortis Inc.** (TSX:FTS)(NYSE:FTS) trades at, and less than **Algonquin Power & Utilities Corp.'s** (TSX:AQN)(NYSE:AQN) shares, which are at a multiple of 33. Capital Power is also trading at just 0.84 times its book value.

The stock has support at ~$24

The last time the share price consistently closed at less than $24 a share was back in January, and it has had support at this level ever since. This suggests that the stock price might still see a bit more of a decline from its current price, but not much. However, with a 52-week high of $26.51, and resistance at ~$26, this is not a stock that is likely going to skyrocket anytime soon. The downside of being stuck in a range is that your gains are limited, but the benefit is, your losses likely will be as well.

Strong dividend growth gives you incentive to hold the stock for years

In 2013, Capital Power's quarterly dividend was just $0.315, and it has since grown to $0.4175 for an increase of 32% and a compounded annual growth rate of 7.3%. If the company keeps increasing its payouts at this rate, then it would take approximately 10 years for the dividend payment to double.

Should you buy the stock today?

If you're looking for a growth stock that will see a big increase, you're probably better off looking elsewhere. However, if you want to buy a stock that you can hold for years while collecting dividends, then Capital Power certainly is a good option for that purpose. The benefit of a utility company is that it provides consistency and predictability in its revenues that many other businesses simply cannot provide.

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djagielski