Why Capital Power Corp. Fell 2.35% on Wednesday

Description

Capital Power Corp. (TSX:CPX), one of North America's largest independent power producers, announced its third-quarter earnings results on Wednesday morning, and its stock responded by falling 2.35% in the day's trading session. Let's break down the quarterly results and the fundamentals of its stock to determine if we should consider using this weakness as a long-term buying opportunity or wait for an even better entry point in the trading sessions ahead.

The results that ignited the sell-off

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

Metric	Q3 2017	Q3 2016	Change
Revenues and other income	$346 million	$374 million	(7.5%)
Adjusted EBITDA	$158 million	$148 million	6.8%
Normalized earnings attributable to shareholders	$29 million	$30 million	(3.3%)
Normalized earnings per share (EPS)	$0.28	$0.31	(9.7%)
Net operating cash flow	$120 million	$105 million	14.3%
Adjusted funds from operations	$134 million	$79 million	69.6%
Electricity generation (Gigawatt hours)	4,725	3,930	20.2%
Generation facility availability	97%	96%	100 basis points

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

Even though Capital Power's third-quarter results were "in line with management's expectations," it was a fairly weak quarter overall, so I think the 2.35% decline in its stock was warranted. That being said, I think the decline has resulted in a very attractive entry point for long-term investors for two fundamental reasons.

First, it's undervalued. Capital Power's stock now trades at just 17.8 times fiscal 2017's estimated EPS of $1.38 and only 16.6 times fiscal 2018's estimated EPS of $1.48, both of which are very inexpensive compared with its five-year average multiple of 29.2; these multiples are also inexpensive given its long-term earnings-growth potential.

Second, it has one of the best dividends in the industry. Capital Power pays a quarterly dividend of $0.4175 per share, equal to $1.67 per share annually, which gives it a juicy 6.8% yield. It's also important to note that the company's recent dividend hikes, including its 7.1% hike in July, have it on track for 2017 to mark the fourth straight year in which it has raised its annual dividend payment, and that it has a dividend-growth program in place that calls for annual growth of approximately 7% through 2020, making it both a high-yield and dividend-growth play.

With all of the information provided above in mind, I think all Foolish investors should consider initiating positions in Capital Power today with the intention of adding to those positions on any further weakness in the weeks ahead.

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