Power Up Your Portfolio With This 6.8% Yield

Description

The world of high-yield investing can be a treacherous one for investors to navigate. With sky-high yields typically come sky-high risk profiles and greater-than-average risks associated with dividend cuts, downgrades, or cash flow issues down the road. I'm going to discuss one company with a 6.8% dividend which is based on strong fundamentals and operating strength: **Capital Power Corp.** (TSX:CPX).

Capital Power is in the business of (you guessed it) power generation, with its operations focused in Canada and the United States. The company's portfolio of power-generation assets is well diversified, both from a geographic standpoint as well as across asset classes. Capital Power holds a range of power plants utilizing renewable energy sources (wind, solar, thermal) as well as conventional energy sources (coal and natural gas), with the vast majority of the company's revenue coming in the form of long-term locked in contracts.

In fact, over 80% of Capital Power's revenues are currently tied to long-term power-generation contracts, securing cash flows for years to come, thereby further stabilizing the company's very attractive dividend yield, which has been the key driver of investor interest in this company for some time now.

Acquisitions

The vast majority of the growth Capital Power needs to drive its impressive dividend yield in the decades to come originates from continued acquisitions. Having an acquisition-based growth strategy is not unusual in the utilities space. Most companies earn a relatively fixed profit margin over time and can only grow by acquiring additional operations, as margin expansion remains very difficult overall in these sectors.

In the past year, Capital Power has made some significant acquisitions, which should propel the company forward, including power plants in B.C., Ontario, and Alabama, along with wind investments in Kansas and North Dakota.

Juicy dividend remains a key investment driver

Investors interested in Capital Power generally focus on the company's gigantic dividend yield as one of the primary reasons for investment. This past summer, Capital Power hiked its dividend by more than 7% and increased its forward guidance for dividend increases in the 7% range moving forward for at least the next two years. The utilities company has paid consistent dividends over time, growing them for the past four years in a bid to become a long-term dividend-growth company for value investors and income investors alike.

At 6.9%, Capital Power's yield falls in the upper echelon of yields, even among its peers in the utilities space — a sector which is known for higher-than-average dividend distributions when compared to other sectors. With a strong growth profile underpinning further dividend increases in the years to come, Capital Power remains a relatively insulated value option on the TSX given its low valuation multiple (a TTM price-to-earnings ratio of only 15.8) and its ability to continue to grow cash flows at a decent rate moving forward.

Bottom line

Capital Power is an excellent high-yield option in the utilities sector, offering investors a very attractive risk/reward profile. With the company reducing its exposure to Alberta and diversifying its operations in different business segments and geographic areas, Capital Power's yield looks to remain robust moving forward, adding to the long-term appeal of this company relative to its peers.

Stay Foolish, my friends.

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