A Dividend Stock for Yield-Hungry Investors

Description

If you're looking to add a dividend stock that's offering a higher yield, pays growing income that's also safe to invest in, then you should consider adding Edmonton-Alberta-based **Capital Power Corp.** (TSX:CPX) to your portfolio.

Let's take a deeper look at the factors that make this power producer a great buy for income-seeking investors.

Business strength

Being one of the largest independent power producers in North America, Capital Power maintains diversified sources to produce electricity. The company operates 24 facilities in Canada and the U.S, with 4,500 megawatts of capacity to produce power from coal, natural-gas, wind, solar, waste-heat and solid-fuel.

In recent years, Capital Power has grown quite aggressively south of the border, buying plants that run from natural gas and building its wind farm in Kansas. Of 4,500 megawatts capacity, Alberta accounts for 53% of Capital Power's owned capacity, while the U.S. makes up 26% of the total generation.

With this diversified operation base, the majority of its revenue comes from regulated sources that shield its cash flows from volatility. Capital Power makes 82% of EBITDA (earnings before interest, taxes, depreciation and amortization) from contracted sales.

Income growth

For income investors, the biggest attraction to buy a dividend stock is its growth in payouts. Power Corp. is a great dividend-growth stock. Last month, the producer hiked its payout by 7%. This was the fifth consecutive annual hike, raising its payout to $1.79 on an annualized basis.

At the current share price, the stock yields 6.6%, one of the highest yields one can earn from the utility space in Canada. A higher dividend yield usually raises question about the sustainability of the payouts, but Capital Power's cash flow situation suggests that the company's dividend is safe.

For the second quarter that ended June 30, Capital Power's adjusted funds from operations (AFFO) – a cash-flow measure that excludes depreciation, amortization and other items – rose by 73% to $76-million.

For the full year, the company expects AFFO to be above the midpoint of its guidance range of $360-million to $400-million — thanks to new generation capacity, rising demand for electricity and rebounding power prices in Alberta.

The bottom line

Capital Power is shifting fast to natural gas to produce power and is replacing its coal-run system. Its push to increase its footprint in the U.S. has increased its American share in total power generation to 26% share from 6%.

Trading at $27.06 at the time of writing with 7% annual dividend growth, I find Capital Power an attractive buy-and-hold stock to earn steadily growing income.

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