



2 Reasons Why This Company Is a Buy

Description

At times, investors put too much stock in quarterly results. In fact, some of the biggest names in the industry are in favour of eliminating quarterly reports. It's also one of the few subjects on which CEOs will agree with President Trump.

At the heart of the issue is the focus on the short term. Increasingly, companies see wild swings in share prices immediately post-earnings. It is argued that the increasing focus on the short-term has hurt long-term growth.

Regardless of where you stand on the issue, post-earnings slides, more often than not, provide great entry points. The most recent example is **Capital Power** ([TSX:CPX](#)), which lost approximately 5.4% of its value since reporting earnings.

Analyst disconnect

On October 29, Capital Power released third-quarter results that disappointed investors. Earnings of \$0.44 per share missed EPS estimates by 21%. On the flip side, revenues beat estimates by approximately \$18 million. The company also reminded investors that the fourth quarter has two major outages scheduled to take place. Combined with higher-than-expected capital expenditures, the fourth quarter may also disappoint.

Here is the thing about the company's third-quarter miss: it appears par for the course. Historically, analysts have had a difficult time estimating the company's results. It was the fifth straight quarter in which the company missed earnings estimates by double digits.

Outperformance

Despite missing estimates, Capital Power is one of the [best-performing utility companies](#). Year to date, the company's share price has gained 12.44%. In comparison, the TSX Utility Index has lost almost 11.37%, which is pacing behind the 5% loss of the TSX Composite Index.

This is normal. In an environment of rising interest rates, utilities tend to underperform the market. Why

is Capital Power outperforming in spite of the numerous headwinds? It's due to valuation and growth.

Expected growth

Two ways in which utilities can buck the industry downtrend is to grow its dividend and earnings. Capital Power is doing both. The company is an attractive income play. It has a 6.6% yield and a four-year dividend-growth streak. As a result, it is on the precipice of becoming a Canadian Dividend Aristocrat, which will improve the company's liquidity.

As one of the smaller Canadian-listed regulated utilities, Capital Power [has higher growth rates](#) than its peers. Over the past five years, the company has grown earnings by a compound annual growth rate of 10.40%. This is second only to **Atco**. Capital Power is expected to grow earnings and revenue by industry-leading low teens through 2020.

Undervalued

The other reason Capital Power has outperformed is that it remains undervalued. The company is trading below book value and at a cheap forward price-to-earnings ratio of 13.43, both of which are below the industry averages. Considering it has higher historical and expected growth rates, it should, at the very least, be trading in line with its peers.

Foolish takeaway

Capital Power's recent weakness is a buying opportunity. The company has outperformed and should continue to do so based on its expected growth rates and valuation as compared to its peers.

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