Build Permanent TFSA Income With This 6% Dividend Stock

Description

Even with a market capitalization of $11 billion, **Capital Power Corp** (TSX:CPX) somehow still flies under the radar. But if you're an income investor, start paying attention.

Capital Power is a classic utility, with more than 5,000 megawatts of generation capacity. Nearly all of its production is tied to long term contracts, so earnings visibility is about as good as it gets.

Plus, management has found ways to grow the company over the years, meaning its 6% dividend has room to increase. Today, it has a strong pipeline of growth opportunities with contracts already lined up. Through 2021, the company anticipates growing the dividend by 7% annually.

Even beyond 2021, there's strong reason to believe Capital Power will be an income investor's dream.

You won't find a more stable business

When analyzing a utility, one of the most important metrics is the average age of its infrastructure. For example, some utility stocks pay more than 6% dividends today, but that high rate won't last for long.

Some utilities I've looked at have an average infrastructure age of more than 30 years, and over the next decade will need to retire up to half of its fleet. Capital Power is in no such position, however.

Today, the average age of its assets is just 15 years, with an average expected life of around 40 years. Over the next decade, only 3% of its fleet will need to be retired. Additionally, some of these projects may qualify for late-stage upgrades, which could boost their life expectancy by a few years or more.

Most important, the company's contracts have more than a decade left on average. So at minimum, Capital Power has 10 more years of predictable income and growth already on the books. Such stability is rare in today's markets.

Adapting to the future of energy

The future of electricity generation is renewable. For several years, in both the U.S. and Canada, nearly all new electricity generation capacity has come from renewables.

Some utilities are stuck in the past, without the knowledge, capital, or foresight to transition their portfolio to cleaner sources. Yet again, Capital Power has seen the future, adapting itself for the next few decades of power generation.

Most of its new assets, which have the longest remaining contract terms, are renewable. For example, projects like New Frontier Wind, Bloom Wind, Beaufort Solar, and Quality Wind all have decades lefton their contracts, and should have lower costs and better uptime than legacy projects. Capital Powerhas even pioneered newer energy generation projects, as with its EnPower Waste Heat asset.

Already, it has contracts for 350 megawatts of wind power to be added to its portfolio over the next 12 months. These projects are already backed by contracts ranging from 12 to 20 years.

Over the next decade, Capital Power management estimates that it has more than 2,000 megawatts of wind opportunities plus 250 megawatts of solar potential. The company expects to fund its $500 million capital expansion plan through internal cash flows alone, with no need to tap the equity markets or pressure the dividend.

Capital Power has one boring superpower

The company's business model isn't rocket science, but it's produced impressive and reliable long-term returns for shareholders. Over the past decade, its dividend has averaged a yield of roughly 6%, close to where it is today.

While it may not get the recognition it deserves, Capital Power has proven its ability to execute year in and year out. That's a superpower every income portfolio can benefit from.

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