This Sleepy Utility Stock Is up 30%: What's Going On?

Description

Utility stocks are supposed to be harbours of safety and stability. That often allows them the ability to pay reliable, high-yield dividends year after year.

Investors are taking notice after one of Canada's most consistent utility stocks surged more than 30% in just a few months. What's going on with **Power Corporation of Canada** (TSX:POW)?

A sharp recovery

Despite the massive rise so far this year, Power Corporation shares are still at the same levels they were 15 years ago in 2004. Since 2010, shares have nearly always remained between $25 and $35 apiece. Now at $31 per share, Power Corporation's value is hovering very close to its decade-long average.

The recent surge actually came following a rare dip.

Roughly one year ago, shares began sinking lower from $30 in March to $24 by December. The culprit remains unclear. To capitalize, the company instituted a $1.35 billion share buyback, which it is completing at discounted prices.

With a market capitalization of less than $13 billion, this was a meaningful move. Management was clearly willing to bet on itself and take advantage of the strange gyrations in equity markets.

In addition to the buyback, the company also boosted its quarterly payout by 5.2%. Even after the last run, shares still have an annual dividend yield of more than 5%.

Is now still the time to buy?

Clearly, December would have been the most opportune time to scoop up shares. However, even after the run, Power Corporation remains undervalued.

As I'd noted in February, Power Corporation has been your ticket to riches for decades. "Since 1988," I wrote, "investors have experienced annual returns of nearly 12%. The TSX, for comparison, would have returned just 7.4% annually."

Management has been carefully putting the pieces into place to ensure this outperformance continues. From a cost, reliability, and environmental perspective, renewable energy is the future. Fortunately, Power Corporation's utility portfolio is dominated by renewable sources. That's a huge advantage.

Competitors that still operate carbon-based facilities face two primary headwinds.

First, input costs can change at any time. If the company burns coal or natural gas, for example, profitability is reliant on their ability to purchase these materials at an attractive price. If commodity prices spike, these utilities will have a tough time protecting cash flows, particularly if their rates are regulated. Renewables benefit from consistent, reliable costs on an annualized basis

Second, increased regulatory scrutiny could raise costs or even eliminate opportunities overnight.

Investing in renewables not only removes these concerns but also generates healthy profits. Management anticipates earning a 12% annual return on additional renewable assets. That should help continue its multi-decade record of 12% annual returns for shareholders.

History will repeat itself

If Power Corporation had a superpower, it would be resiliency. In 2005, annual profits were around $1 billion. Within one year after the financial crisis roiled equity markets around the world, Power Corporation was still producing roughly $1 billion in annual earnings.

This management team truly is world class. Over the next decade, it's reasonable to expect that Power Corporation's proven history of execution will repeat itself.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:POW (Power Corporation of Canada)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/25
Date Created
2019/03/26
Author
rvanzo