



Revealed: I Just Loaded Up on This Stock Inside My TFSA

Description

I use a simple strategy inside my TFSA. I look to buy undervalued stocks with sustainable dividends. This creates a passive-income stream I can put back to work in other attractive securities, which starts the compounding effect that will eventually bring the account's balance to [more than \\$1 million](#).

While it does make sense to trade stocks a little more often inside a TFSA — because the account isn't subject to capital gains taxes — I prefer to take a low-stress long-term buy-and-hold approach. Why would I want to sell shares of a great company simply because it has gone up?

Let's take a look at a stock I just bought for my TFSA — the kind of company I hope to own for a few decades.

A recently transformed company

A lot has changed since 2015 for **Capital Power** ([TSX:CPX](#)).

That was the year a newly elected NDP government announced Alberta would be phasing out coal power by a 2030 deadline. Capital Power was the most affected by then-Premier Rachel Notley's plan; the majority of its power generation capacity was from coal-fired plants around the Edmonton area.

The company used it as a source of motivation, completely transforming itself into a diverse power producer with greener assets spread all over North America. The company also reached a deal with the province that gave it a total of \$734 million as compensation for "stranded" coal power plant assets. Much of that capital will go towards converting existing coal plants to use natural gas as a fuel.

These days, Capital Power owns power plants throughout North America with a robust pipeline of contracted growth opportunities. By the time its current development projects are completed, the company will have 6,300 MWs of power generation capacity. This includes natural gas, wind, solar, and waste-heat-powered facilities.

In 2014, two-thirds of Capital Power's generation capacity was fueled by coal. These days the

company has just 3% of capacity fueled by coal and an additional 28% fueled by plants that use a combination of natural gas and coal — a percentage that is steadily going down as more plants are fully converted to natural gas.

Why it's a buy today

I really like Capital Power's transformation into a greener power producer. But what I like even more is the company's growth profile, its low price-to-adjusted funds from operations ratio, and its [succulent dividend](#).

Let's start with the growth. Capital Power has boosted its adjusted funds from operations (AFFO) by an average of 12% since 2014. Near-term growth isn't an issue either; remember, the company has projects in the development phase that will add to the bottom line in 2020 and 2021.

Despite this stellar AFFO growth, Capital Power shares trade at an incredibly cheap valuation. The current stock price is just under \$31 per share. The company projects it'll earn \$4.46 in normalized AFFO in 2019. That gives us a price-to-AFFO ratio of under seven.

I've done the research, and there aren't many power producers in North America trading for that kind of valuation. And the ones that are that cheap don't have Capital Power's growth profile.

Finally, we have the dividend. The current yield is very attractive, checking in at a 6.2% yield. The company has raised the payout each year since 2014, with management already pledging to hike the payout by 7% per year through 2021.

The current payout is just 43% of 2019's projected AFFO. You don't have to worry about it getting cut.

The bottom line

Capital Power is growing, it offers a succulent yield, and you can't beat the stock's valuation. Put it all together, and we have a very compelling investment opportunity today.

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