



## This Dividend Stock Is Absurdly Cheap Right Now

### Description

Dividend stocks are fast becoming an investor favourite amid an uncertain and volatile macroeconomic environment. While broader indices such as the **Dow Jones** and **S&P 500** are trading at all-time highs, recession calls are getting louder by the day, making investors cautious.

Dividend utility stocks are considered a safer investment in a downturn, however. Below we'll look at one stock with solid dividend yield and significant upside potential as we head into 2020.

### Capital Power Corporation gains on solid Q3 results

I had first identified **Capital Power** ([TSX:CPX](#)) as [a solid long-term bet](#) on October 24 of 2019. The stock has already gained close to 6% since then.

Capital Power is a Canada-based power generation company. In Canada, Capital Power has facilities in Alberta, British Columbia, and Ontario, while its U.S. facilities include New Mexico, North Carolina, and Kansas.

The company recently announced its third-quarter results and reported total revenue of \$517 million, 30.9% higher than the revenue of \$395 million in the prior-year period. Adjusted EBITDA rose 58.7% to \$284 million in the September quarter.

Capital Power's sales were driven by higher realized power prices and increased power generation. EBITDA rose higher as acquisitions of Arlington Valley and Goreway were completed and commercial operations of New Frontier Wind were added to the fleet in late 2018.

The company's adjusted funds from operations (AFFO) rose 44% to a third-quarter record of \$225 million. AFFO per share rose 39% to \$2.11.

In the first nine months of 2019, Capital Power sales rose higher by 19% to \$1.28 billion and EBITDA was up 20% to \$677 million. AFFO rose 35% to \$427 million to \$4.11 per share.

Capital Power had solid operating performance in its power generation fleet with 96% availability in the third quarter. This included a planned outage at its Joffre facility in September that reduced the availability to 82%.

## Capital Power continues to focus on inorganic growth

In August 2019, Capital Power entered into an agreement to acquire the remaining 50% stake in Genesee 3 from **TransAlta Corp** in exchange for a divestiture of the former's 50% share in Keephills 3 and \$10 million in cash.

This transaction was completed on October 1 and Capital Power has now assumed full control of the Genesee generating station.

During the company's earnings call, CEO Brian Vaasjo that this acquisition, "Allows us the strategic freedom to make decisions that further optimize value. This includes accelerating our dual-fuel capability plans to maximize flexibility in using natural gas as fuel. "

He added, "The transformation of the units to 100% dual-fuel is on track with Genesee 2 expected to be 100% dual-fuel by mid-2020, followed by Genesee 1 in the spring of 2021."

## What next for Capital Power and investors?

Analysts expect Capital Power to increase sales by 16.2% in 2019 to \$1.62 billion driven by recent acquisitions. This will also help the firm increase earnings by 21% this year. While sales in 2020 are expected to be flat, EPS is estimated to rise by 16.6%.

Analysts expect Capital Power to increase earnings by 15% annually over the next five years. Compare this to its forward price to earnings multiple of 19 and we can see that the stock is a tad undervalued after accounting for a solid dividend yield of 6%.

Capital Power investors might be concerned over the company's rising debt. Analysts expect debt to rise from \$2.48 billion in 2018 to \$3.33 billion in 2019. Capital Power ended Q3 with a cash balance of \$133 million and an operating cash flow of \$652 million.

Despite interest payments, the company paid dividends to shareholders and repurchased shares worth \$50 million in the third quarter, though the payout ratio was well over 100%. Capital Power might find it difficult to raise dividends going forward but will bank on recent acquisitions to result in a steady stream of cash flows.

Analysts tracking Capital Power have a 12-month price target of \$33.5, 3.4% above the current trading price.

### CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)

## PARTNER-FEEDS

1. Business Insider
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