Revealed: My Top Stock Pick for 2020

Description

There are thousands of stocks in North America, but only one can get the much coveted top spot.

Yes, it's time for my favourite stock for the upcoming year. This company has it all, including an ambitious growth plan; sharp management team; misunderstood business; and, perhaps most important, it trades at a dirt-cheap valuation without deserving such a fate.

As a reminder, my top stock for 2019 delivered a 17% total return, a pretty solid result.

But I won't tease any longer. Here's why I believe **Capital Power** (TSX:CPX) is poised to have a very good 2020.

The skinny

Much has changed for Capital Power since 2015, when Rachel Notley's recently-elected NDP government told Alberta's energy industry that coal-fired power would be banned in the province come 2030.

As the owner of some of the province's largest coal plants, Capital Power looked like it could be in big trouble. But I'd argue this was exactly what the company needed. It was the push that really supercharged its growth plan.

Less than five years later, things look very different. The company negotiated a settlement with the province that will see it get a total of $734 million — cash that will be used to convert many of the coal plants to natural gas.

It has also been expanding aggressively outside the province, both developing and acquiring assets across Canada and the United States. None of these new assets are coal-fired; most are wind and natural gas-powered.

In 2013, Capital Power generated $484 million in earnings before taxes, interest, and depreciation. In

2019, it increased that number to nearly $900 million. It almost doubled earnings in just six years, all while dealing with a weak power market in Alberta.

There's still plenty of growth potential going forward, too. Projects in Whitla and Cardinal Point will come online in 2020, with additional developments ready in 2021.

The company also plans to spend $500 million on acquisitions in the upcoming year. And Goreway, the natural gas plant acquired in Ontario in the latter half of 2019, will contribute a full year's worth of earnings to the bottom line.

Capital Power has told investors they can expect the company to generate some $525 million in adjusted funds from operations (AFFO) in 2020, which works out to approximately $5 per share.

The stock, meanwhile, trades hands at $34.03 as I write this, giving us a forward price-to-AFFO ratio of just under 7 times earnings. That's insanely cheap, especially for a stock projected to deliver solid growth for years to come.

Get paid to wait

One of the best parts of investing in Capital Power is the company's unbelievably good dividend. It offers a unique version of a great yield today and solid dividend growth potential going forward.

Let's start with the current dividend. The payout today is $1.92 per share annually, which works out to a 5.6% yield. That's already an excellent payout.

But wait, there's more. The company has hiked its dividend each year since 2013. It has already told investors to count on 7% increases in 2020 and 2021, and 5% dividend growth for 2022 was just added, too.

Add these increases together and the company will pay a $2.31 per share dividend by 2022, which translates into a 6.8% yield on cost, today.

Many high-yield stocks suffer from aggressive payout ratios — just one stumble and the dividend is at risk of being cut. Capital Power is a notable exception; its payout ratio is under 40% of next year's AFFO. You can count on this distribution.

The bottom line

Capital Power offers significant upside potential in 2020 as investors begin to realize management are doing a great job with the shift from coal.

A combination of increasing earnings, further acquisitions, and multiple expansion should be enough to carry the stock much higher over the coming year. Investors could see 30-50% total returns with protection on the downside.

CATEGORY

1. Dividend Stocks

2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/25
Date Created
2019/12/26
Author
nelsonpsmith