Worried About a Recession? Buy This TSX Stock for 2020

Description

There is always a light at the end of the tunnel. And if you are the company who is powering that light, there's nothing better. Power companies are still chugging along, providing their essential services. They can't shut down their operations because they are responsible for keeping the lights on, literally.

This doesn't mean that power companies have been immune to the impact of COVID-19. They have taken their fair share of pounding on the stock market – some more than others. But, generally, they are a comparatively safe bet in a recession.

Capital Power

Capital Power (TSX:CPX) is a power producer headquartered in Edmonton, Alberta. The company develops, acquires, owns, and operates power generation facilities using a variety of energy sources. It owns over 6,400 megawatts (MW) of power generation capacity at 28 facilities across North America. Approximately 630 MW of its owned generation capacity is in advanced development in Alberta.

Capital Power is one of the smallest Canadian power companies and has taken a severe beating on its share price. The stock is trading at sub-$24 levels, down almost 40% from its 52-week highs.

The stock pays a dividend yield of almost 8% right now, which is more than attractive for the income investor. There is little danger of Capital Power shutting operations down as the electricity it produces is essential to keep communities and critical services operating. That is why I believe you can park your money in this is a stock, earn a good dividend and then reap benefits when the stock market stabilizes.

Strong quarterly results

The company had a stellar fourth quarter, with revenues and other income coming in at $683 million. This 101% increase over the fourth quarter of 2018 is due to strong results from the Alberta commercial and portfolio optimization segment, and the acquisition of Goreway in the second quarter of 2019. Adjusted EBITDA was $352 million, up 106% year over year. Adjusted EBITDA for the whole of 2019 was $1 billion, up 40% over 2018. AFFO (adjusted funds from operations) for 2019 was $555 million, up 40% from 2018.

Guidance for 2020 remains strong. Capital Power is targeting $935 million to $985 million in adjusted EBITDA, and AFFO is forecast between $500 million to $550 million for this year.

Capital Power acquired Buckthorn Wind, a 100.5-MW wind farm in Erath County, approximately 60 miles south of Dallas, Texas. The equity purchase price will be in the range of US$60 million to US$69 million pending the realization of future market performance. This acquisition is 100% debt-financed.

The company also plans to terminate its facilities in North Carolina as it termed operations in the region a “negative profile” from an ESG perspective. Capital Power believes that it will end up with a very efficient fleet but “that doesn’t mean that at some point in time we might not be looking at divesting various assets for a whole range of reasons, including demand for capital.”

This is a company with good fundamentals and strong management. It’s a good buy in these uncertain times and will rebound quickly when the market recovers.

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1. TSX:CPX (Capital Power Corporation)

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