Market Rally: 1 Cheap Renewable Energy Stock Yielding 7%

Description

For the past month, I focused on buying larger-cap utility stocks when the opportunity came up. There was a very small window of time in mid-March when names like **Emera Inc**. were trading relatively low with yields over 5%. That time passed very quickly, however, and it has been increasingly difficult to find stocks that are trading at a cheap level.

I like regulated power utilities. They are consistent dividend growers with a heavily-demanded product. One outcome of the pandemic-induced lockdown has been the fact that we are continuing to consume energy at a high rate. So many people are watching online streaming services, playing online games, and the like that the demand for power will continue for some time.

One small renewable power utility I have liked for some time is **Capital Power Corp.** (TSX:CPX). Although it is not a large regulated utility, it currently has a great dividend, solid growth prospects, and is trading at a low valuation. This is one small utility that is worth adding at these levels.

A utility with growth

Utility companies are generally not known for their rapid growth but hey usually have steady, regulated, or contracted earnings that increase slowly over time. They are not going to shoot up like the latest tech stock, unfortunately, but they can have some growth.

Nevertheless, one of the benefits of choosing a smaller company like Capital Power is that you have the possibility of faster growth.

Last quarter, Capital Power had a good earnings report that spoke to the strength of its business. Revenues and other income doubled in Q4 2019 year-over-year. Basic earnings per share increased by 30% over the same period as well. Adjusted funds from operations increased by 60%.

It was also prescient that the company decided to increase its 2020 hedged position from 53% to 72% prior to the current negative economic situation. The only downside is the fact that its 2021 commercial position remains largely unhedged. This will be a drag on earnings if the economic malaise continues for a significant period.

The dividend

The company also has a pretty hearty dividend at these levels, powered by its financial growth. It currently yields about 7% at these levels. Last year, Capital power also increased its dividend by 7.1%. It hopes to continue raising its dividend, but of course, that is all very much up in the air since the pandemic knocked out economic activity. This is a power utility, though, so it will have a better chance of generating dividend-power cash flow.

In addition to the dividend, Capital Power also returned cash to shareholders through share buybacks. In 2019, the company bought back 2.5 million shares.

The bottom line

The collapse in stock prices gave investors opportunities to rebuild positions in core utility holdings. These stocks rose quickly, however, so you need to look further afield to gain yield while still obtaining some growth. Capital Power is one such company that offers excellent growth prospects.

It is riskier, given the fact that the company relies on contracted prices, especially in its commercial portfolio. Nevertheless, this is a good dividend company that you can add to your dividend portfolio, as long as you don’t mind assuming the added risk.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:CPX (Capital Power Corporation)

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