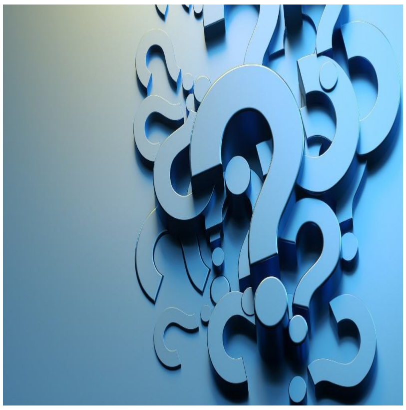

Is This the Safest 7%+ Dividend Yield in Canada?

Description

Many hours of manpower are wasted as investors dedicate countless hours towards analyzing stocks with huge dividend yields.

The result is most likely the same. There's usually a very important reason why a stock will have a big dividend yield. Investors are worried about the long-term earnings potential of that company. As a high dividend stock usually pays out most of its earnings, even a small impairment of earning power can be lethal to the yield.

Sometimes, however, exceptions exist. These are high-quality dividend payers that offer sustainable payouts. A handful of these in your portfolio can really goose your overall yield without much extra risk.

Let's take a closer look at one such stock — a company I believe offers the safest 7%+ dividend yield in Canada.

A steady business with plenty of growth

Capital Power (TSX:CPX) has made a lot of good changes since 2014.

In 2014, the company owned primarily coal-fired power assets in Alberta, which all changed when the province's government told power producers they'd no longer be allowed to use coal as a fuel by 2030. Management immediately went to work diversifying the company.

The organization looks much different these days. It owns 28 different operating facilities with more in various development stages. Total power output is more than 6,800 MW. Recent acquisitions haven't just diversified the portfolio away from Alberta; the company has also been acquiring greener assets.

Although Alberta is still the company's most important operating area, just 40% of earnings come from the province today. Capital Power has also invested in its main assets in Alberta, converting these facilities so they are set up to use natural gas as a fuel.

Growth should continue nicely over the next decade or so. In fact, Capital Power has a plan to at least double its EBITDA by 2030. I suspect that plan is a little conservative; the company has the balance sheet strength to continue making acquisitions for a long while.

The opportunity

Capital Power offers a robust dividend yield with a puny payout ratio. That's the kind of combination dividend investors should want to see.

As it stands today, the dividend yield is 7.1%. That's an excellent payout. It's also a sustainable one too, with Capital Power paying out approximately 40% of 2020's estimated adjusted funds from operations.

The current dividend is $1.92 per share, a payout slated to go rise by approximately 7% in 2020. Adjusted funds from operations are slated to be approximately $5 per share. You won't find many payout ratios better than that.

The company has already come out and told investors it figures the impact of COVID-19 will be minimal on the bottom line. Things were looking a little dicey for its Alberta earnings — after all, the province is reeling from both COVID-19 and weakness in the energy market — but oil has rebounded nicely from April's lows.

Capital Power shares have been cheap for years now, an affliction many blame on the company's previous focus on coal-fired power. Many larger investors don't realize just how much the Capital Power has transformed itself, leaving a large base of retail shareholders. This should change as more smart people on Bay Street become aware of the company.

Oh, and one last thing. Capital Power has a small investment in a startup called C2CNT, which removes carbon dioxide from power plants and uses it to carbon nanotubes, tiny structures that can make materials like concrete and steel much stronger. If C2CNT can do this in a cost effective way, Capital Power shareholders will be very happy.

The bottom line

Capital Power offers an interesting investment thesis today. Investors get a dirt-cheap valuation, solid potential growth from a number of different sources, and one of Canada's best dividend yields while they wait. What's not to like?

CATEGORY

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2. Investing

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