1 Dividend Stock for Passive Income Up a Surprising 22.5% in 2022

Description

Canada's primary stock market isn't doing well in 2022 compared to last year. However, despite the underperformance due to recession fears, the **TSX** displays resiliency. As of this writing, the TSX is down 10.38% year-to-date, but it has gained 2.18% in the last five days.

Energy (+35.39%) remains a top-performer out of the 11 primary sectors despite the erratic behaviour of oil prices lately. Meanwhile, the search for safety nets continues. Regulated utility companies like **Fortis** or **Emera** are usually the top-of-mind choices for risk-averse investors.

However, **Capital Power** (TSX:CPX) outperforms both and the broader market. The utility stock has advanced 5.1% in the last 10 days to end higher at $47.1 on July 20, 2022. Its year-to-date gain is now 22.5%. Besides the price appreciation, current investors enjoy a juicy 4.65% dividend.

Growth-oriented IPP

Capital Power is a growth-oriented independent power producer (IPP) based in Edmonton. The primary focus of this $5.48 billion company is to advance renewable energy, reduce emissions, and introduce new technologies to existing systems and processes.

Growth is on the horizon for Capital Power's highly-contracted, young, and diversified portfolio. According to management, it boasts well-positioned assets and trading expertise in the attractive power market of Alberta. Among its primary goals are to be off coal by 2023 and carbon-neutral before 2050. ESG investors should find these goals appealing.

At present, 27 operating facilities combine to generate 6,600 MW. By 2024, an additional 900 MW from five renewable and repowering (Genesis 1&2) projects is planned. Currently, the business mix (fuel types) is 38% natural gas/coal dual fuel, 35% natural gas, and 27% renewables.

Management expects clean natural gas and renewable projects in development to replace dual-fuel in two years. Moreover, the average power purchase agreement (PPA) term is 9.7 years. Capital Power is targeting $500 million in committed capital for sustainable growth. The development pipeline consists of 3,300 MW for solar and wind plus 3,350 MWh for battery storage.

Financial performance

In Q1 2022, Capital Power reported 23%, 15%, and 26% increases in revenues, adjusted EBITDA, and adjusted funds flow from operations (AFFO) versus Q1 2021, respectively. The quarter's highlight was the 101% year-over-year growth in net cash flows from operating activities to $415 million.

For 2022, management expects to meet or exceed the upper ends of its guidance range. By sustaining capital expenditures between $105 and $115 million, Capital Power should have strong cash flows and be able to overcome inflationary pressures. If all goes well, adjusted EBITDA and AFFO could reach as high as $1.16 billion and $630 million, respectively.

Capital Power also expects lower contracted power prices in the next three years. The projected forward power prices for 2023, 2024, and 2025 are $78, $63, and $59. Given the significant opportunities ahead, management plans to increase its M&A activities in thermal and renewables.

Growing payouts

Capital Power deserves to be in the buy lists of income and growth investors because of the positive business outlook. Management targets 10% to 12% shareholder returns and an annual dividend growth of 5% through 2025. This dividend aristocrat has a dividend growth streak of eight consecutive years.

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