



## TransAlta Corporation vs. Innergex Renewable Energy Inc.: Which Should You Buy?

### Description

Both of these diversified energy companies have high dividend yields of over 5%, but after digging deeper one of them looks like a much better investment.

#### TransAlta Corporation

**TransAlta Corporation** ([TSX: TA](#)) ([NYSE: TAC](#)) is Canada's largest publicly traded generator and marketer of electricity and renewable power. The company also has operations in the U.S. and Australia. The company's renewable energy division, of which TransAlta is the majority shareholder, is **TransAlta Renewables** ([TSX: RNW](#)).

Even after the recent reduction of its dividend, (the company decreased its quarterly dividend to \$0.18 per share compared to the prior \$0.29 per share dividend payment on its March 2014 record date) TransAlta's current annual dividend yield is a healthy 5.67%. But does that make the company a good investment?

The first thing that stood out to me was TransAlta's low price-to-book ratio. At 1.59 it is lower than the industry average of 2.72 and lower than other energy companies I was researching. While a low price-to-book ratio can mean a company is undervalued, it can also throw up a red flag, suggesting something is amiss. In the case of TransAlta, its stock is down 14.45% over the last 52 weeks, and the plunge suggests that something is wrong.

While TransAlta does have exposure to renewable energy and natural gas, the company also has exposure to coal, which I think is a negative factor. Not only have the company's coal operation margins been responsible for some recent weakness in earnings, there is a large negative overhang on the coal market right now, one that I think is justified.

In 2013, the company earned \$0.31 per share, 43.3% lower than the \$0.55 consensus estimate by analysts polled by Capital IQ. Revenues came in at \$2.3 billion compared to the \$2.4 billion estimate by analysts as coal companies took a hit in general last year.

In 2013, EBITDA declined dramatically for North American coal-fired plants thanks in part to lower coal prices, and higher regulation-related penalties. Unfortunately, coal prices have remained weak and in the U.S., the EPA is rolling out more regulations that will penalize coal companies even more. TransAlta is one of these companies.

The company also fell short of expectations in the first and second quarters this year. On July 30, TransAlta reported a Q2 loss of \$0.04 per share, compared to the \$0.01 per share that analysts surveyed by Capital IQ were expecting. For the full year, the company is targeting EPS of \$0.38. This is slightly above the \$0.31 the company earned in 2013.

In the latest earnings release, the company commented that it saw improved performance in the coal sector. However, the aforementioned low coal prices and coming regulations will continue to impact the coal sector as a whole.

### **Innergex Renewable Energy Inc.**

**Innergex Renewable Energy Inc.** ([TSX: INE](#)) currently operates 26 run-of-river power plants, six wind farms, and one solar farm. The company has a price-to-book ratio of 2.49, pretty standard for the industry, and modest given the fact that the company has outperformed the S&P 500 over the past 52 weeks, with the stock gaining 21.20% compared to the S&P's 17.38% advance.

However, the company has pulled back from touching its 52-week high on December 20, 2013 of \$11.43, and is currently trading around \$10.75 per share. The company has a relatively high forward P/E, at 56.63, but given its diversified energy base and expectations that earnings will continue to grow, I think this company is a much sounder investment right now compared to TransAlta.

Innergex also fell short of expectations in 2013, earning \$0.10 per share compared to the \$0.13 estimate according to Capital IQ, but compared to TransAlta, the earnings were much better at 'only' a 23.1% miss. Revenues came in at \$198 million versus expectations for \$208 million, a very modest 0.05% miss.

The company also slightly missed revenue forecasts for Q1 2013, pulling in \$37.6 million compared to the \$44.3 million consensus estimate. Looking forward, the company is calling for 2014 full-year earnings of \$0.12, which would be an improvement compared to 2013's result.

While TransAlta recently decreased its dividend, Innergex recently increased it. The company's current quarterly dividend is \$0.14818 per share while its forward annual dividend yield is 5.58%.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:TAC (TransAlta Corporation)

2. TSX:INE (Innergex Renewable Energy)
3. TSX:RNW (TransAlta Renewables)
4. TSX:TA (TransAlta Corporation)

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### Date

2025/08/27

### Date Created

2014/07/31

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