



## What Has Sucked the Power Out of TransAlta Corporation's Stock?

### Description

A lot has changed since the power generation and wholesale marketing company **TransAlta Corporation** ([TSX: TA](#))([NYSE: TAC](#)) was originally founded in 1909, like the conquest of the automobile, the birth of the internet, and the widening of power generation options. Yet through all of this TransAlta has remained. So what has taken this member of the **S&P/TSX 60** family to its lowest point in 10 years?

The days of a \$37.38 stock price in 2008 are long gone, and the stock hasn't cleared \$20 since March 2012. Where does this leave investors today? Investors are dealing with a new 52-week low of \$12.32, reached on July 31. This most recent slump was triggered way back in February when the company's 2013 year-end results were released. Between Feb. 17 and March 2 the stock took its biggest 12-month drop, going from \$14.94 to \$12.69.

This drop is understandable as the Q4 2013 portion of the report showed that revenue fell to \$578 million from \$646 million in Q4 2012. There was also a quarterly net loss of \$66 million, compared to net income of \$38 million in Q4 2012. For 2013 there was a total net loss of \$71 million, much better than the net loss of \$615 million in 2012.

However, the Q4 revelation that irked investors the most was the decision to cut the dividend from \$1.16 annually to \$0.72 annually. This was a hard decision for the company, but at the end of the day the dividend dollars were needed more inside the company.

### Second-quarter results

Last week, TransAlta released its Q2 results, and those have done little to change the fortunes of the stock. The next day, the stock fell to the new 52-week low mentioned above. Revenue fell to \$491 million from \$542 million, even though power generation increased to 9.2 million GWh from 8.1 million GWh.

EBITDA in the quarter also fell to \$213 million from \$247 million. The biggest boost the company saw in the quarter in terms of EBITDA was from a rather unexpected place — its Canadian coal production, which saw its EBITDA increased to \$83 million from \$48 million.

In terms of the bottom line, the company posted a net loss of \$50 million, or \$0.18 per share, down severely from a net gain of \$15 million, or \$0.06 per share, in Q2 2013.

### **New plant in Australia**

Some good news for the company comes in the form of a new \$580 million natural-gas-fired power plant that will be built in Western Australia. This adds to TransAlta's current portfolio of six power plants in Australia, which produce a combined 425 megawatts.

The new plant already has customers lined up as both Horizon Power, the local utility, and a local iron ore mine have already signed on to receive power. TransAlta has declared that this project is an example of what the company can accomplish with its lower dividend payout plan.

### **To 2017 and beyond!**

The new plant is expected to open in 2017, which is shaping up to be a critical year for the company. That year is when many of the long-term power contracts in its home province of Alberta start to expire, finally allowing for some renegotiation to meet modern market prices. There have also been rumours that if the next couple of years play out well, 2017 could also be the year the dividend gets increased.

It could be quite a while before investors could see some extra cash in their pockets, as TransAlta's stock closed Friday at \$12.90 and has an average price target of only \$12.90.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:TAC (TransAlta Corporation)
2. TSX:TA (TransAlta Corporation)

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