



5 Reasons to Get Excited About TransAlta Corporation

Description

TransAlta Corporation ([TSX: TA](#))([NYSE: TAC](#)) is a power generator and wholesale marketer of electricity. The company has 70 power plants in Canada, the U.S. and Australia.

While its Q2 EBITDA was down from Q2 2013, the company is still fundamentally strong. Here are five reasons why TransAlta deserves due diligence as an income stock for your portfolio.

1. Diverse operations

TransAlta has a growing collection of assets powered by a variety of fuels. Its power plants are fuelled by wind, geothermal heat, hydro, coal, and natural gas. The company has added 1,800 MW to its generation fleet since 2008.

Furthermore, its facilities in development include Solomon (gas/diesel) in Western Australia, Sundance-Uprate (coal) and Sundance 7 (gas) in Alberta.

The Sundance-Uprate power plant is the largest coal-fired electrical generating facility in western Canada. The Sundance 7 project (800 MW plant) will be a vital addition to the Alberta electricity market to meet the province's long-term supply needs.

2. Canadian coal assets

TransAlta has three company-owned surface coal mines. Its Highvale mine is Canada's largest surface strip coal mine. The company said in a recent conference call that, "Reductions in operating costs at Alberta Coal are beginning to materialize as a result of better performance."

For Q2 2014, Canadian coal comparable EBITDA increased to \$83 million and \$177 million year-to-date. This is in comparison to \$48 million and \$146 million, respectively, for the same periods in the previous year.

TransAlta President/CEO Dawn Farrell said, "One of our key priorities for 2014 is to restore the performance of our Canadian coal assets and we are seeing improved results year-to-date."

3. Improved liquidity

TransAlta is focused on improving its liquidity. The company ended Q2 2014 with approximately \$1.5 billion in liquidity. This is up from \$900 million at the end of last year.

It completed the sale of its 50% ownership of CE Generation LLC, the Blackrock Development Project, and CalEnergy LLC for net proceeds of US\$188.5 million in Q2. TransAlta also completed a three-year USD bond offering. This is to reduce drawing on its credit facility, improve the company's liquidity, and leverage a strong market at very low rates.

4. South Hedland project

TransAlta agreed in Q2 to build and operate an AUD\$570 million, 150 MW combined cycle gas power station in South Hedland, Western Australia. The expectation is that the fully contracted power station will be commissioned and delivering power in the first half of 2017.

The South Hedland project will be one of the most efficient power stations in the region. It provides TransAlta with another avenue for expansion in Western Australia.

Western Australia is a core market for the company. By early 2017, upon finishing the building of the South Hedland station, TransAlta's overall investment in Western Australia will have increased to more than \$1.2 billion. Western Australia is a critical region for supply and worldwide resource demand.

5. Consistent dividends with a high yield

TransAlta's current dividend yield is 5.70% and its five-year average dividend yield is 6.70%. In July, the company declared a common share dividend of \$0.18 per share payable on October 1, 2014. TransAlta's dividend rate is \$0.72 and the company pays dividends quarterly.

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