2 Reasons to Avoid TransAlta Corporation, and 1 Stock to Buy Instead

Description

If you're looking for companies with beaten-up stock prices, utility **TransAlta** (TSX: TA)(NYSE: TAC) certainly fits the bill. Over the past three years, its stock is down nearly 50%. And at today's price, the dividend yields a healthy 6.25%.

But now's not the time to bet on a turnaround, and below we detail two reasons why. Then we reveal a stock you should buy instead.

1. The wrong assets

CEO Dawn Farrell has quarrelled with investors in recent months, and she made an interesting point about why that's the case. She said that some investors see the company as a "utility with predictable regulated assets, when it's not."

Ms. Farrell seems to have a point. In the second quarter of this year, the company reported earnings before interest, taxes, depreciation, and amortization (EBITDA) of $13 million, down from $247 million in the same period last year. Weak electricity prices in Alberta have been the main culprit.

There are other reasons to be concerned. Over half of TransAlta's electricity production comes from coal, which is always vulnerable to new environmental regulation. The company also seems hell-bent on international expansion, which includes a $580 million deal to build a gas plant in Western Australia.

So if you're looking for a solid, reliable dividend, then TransAlta just isn't right for you. There are too many things that could go wrong.

2. The balance sheet

Making matters worse, TransAlta has a very scary balance sheet, with roughly $4 billion in debt and only $94 million in cash. This is not what you want to see from a company that has lost money in each of the last two years. And it was a main reason it cut its dividend by 38% earlier this year.

So at this point, TransAlta wants to grow overseas while paying a big dividend, even though it's been losing money and all the while keeping its bloated balance sheet under control. Is this really a dividend you can count on, especially since it's been slashed already this year?

1 company to buy instead: Fortis Inc.

Fortis (TSX: FTS) is Canada's largest investor-owned distribution utility, and other than being in the same sector, has very little in common with TransAlta.

First, the bad news: Fortis's dividend yields only 3.7%. But unlike TransAlta, this is a dividend you can count on. In fact, Fortis has raised its dividend every year for over four decades. And the company actually makes money — and pays an affordable dividend, too.

Better yet, Fortis is much more concentrated on gas-fired power plants, which don't carry as much regulatory risk as coal. So if you're looking for a good dividend-paying stock, don't be lured by TransAlta's high yield. Instead, go with the company you can rely on.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:FTS (Fortis Inc.)
3. TSX:TA (TransAlta Corporation)

Category

1. Investing

Date
2025/08/26
Date Created
2014/09/16
Author
bensinclair