



One Stock to Add to Your Retirement Portfolio: TransAlta Corporation

Description

Investing is always a gamble, especially when it comes to stock markets. The lower the risk, the lower the return; the higher the risk, the higher the return — that's pretty much the model of the stock market. I always say the key to investing wisely is to first determine exactly what your objective is and what type of an investor you are. When investing, I usually ask myself a few questions to help me determine that:

- Am I looking to invest in a stock/commodity for a year or less or for the long haul (three to five years or longer?)
- How do I want to play the market — higher returns but higher risk — or play it safe and get stable but lower returns?

These are probably the two most important questions for an investor when starting out.

For those looking to add a new stock to your retirement portfolio, I would suggest **TransAlta Corporation** ([TSX: TA](#))([NYSE: TAC](#)), an independent power producer and energy trader in Canada.

While it is arguable that it's not a great buy for several reasons, including the fact that the company cut its dividend earlier in the year from \$1.16 to \$0.72 per share, I still consider it a reliable buy — for *patient* investors. That's the keyword.

If you are looking at the stock from a “trading” perspective — to make a quick buck, trade in and out of the share in a short time period — then this company is certainly not for you. However, if you are looking at the stock from an “investing” perspective, i.e., buying and holding on to the stock for a number of years, then TransAlta is a great option.

Despite everything that went against the company, it has still met its guidance. The stock has recently been trading around its 15-year low. And while that may naturally make many investors nervous practically, this would be the ideal time to buy the stock in terms of valuation since it is selling at the cheapest cash flow (P/CF) multiples in about 25 years.

But what makes TransAlta promising is that Alberta's purchase power agreements (PPAs) will begin to

expire between 2017- and 2021, which would mean a huge increase in cash flow for TransAlta. Analysts at research firm Morningstar say that at current market prices this could add about \$400 million to the company's earnings (EBITDA).

In my opinion, this is very promising for the company and its shareholders. But remember, if you invest in the stock today, you have to be very patient in order to reap the profits.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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