



## Is TransAlta Corporation a Top Turnaround Bet?

### Description

**TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) has a long history of slow and measured growth. Recent times have been tough for the company but investors are starting to see some light at the end of the tunnel.

Let's take a look at the current situation to see if TransAlta deserves to be in your portfolio.

### Dividend safety

Canada's largest investor-owned wholesale power generator is working through the process of converting or closing its legacy network of coal-fired plants to comply with new emissions standards.

The combination of expensive upgrades and weak power prices forced TransAlta to slash its dividend early last year. The company reduced the payout by 38% to 72 cents per share and the stock dropped like a rock.

The shares continued to drift lower through most of 2014 and bottomed out below \$10 per share in mid-December.

The stock has found some support in recent weeks, and currently trades around \$11 per share. The dividend now yields about 6.5%.

In the company's Q3 2014 earnings statement TransAlta reported lower long-term debt and higher cash and cash equivalents compared to the start 2014. As of September 30, TransAlta had \$245 million in cash and \$1.4 billion available under credit facilities.

At the moment, the dividend looks like it is safe. The company's cash position improved through 2014 despite tough market conditions and the company's strong hedging positions should deliver reliable revenue streams moving forward.

### Cash flow

Cash flow took a hit in 2014 due to lower-than-expected power prices. While conditions remain challenging in the near term, electricity prices in Alberta are expected to increase significantly over the next 10 years as the province's legislated power purchase arrangements expire.

TransAlta recently signed an agreement with Alstom for 10 major maintenance projects that will be carried out at TransAlta's Sundance and Keephills plants. The company said the work will be completed over three years and should deliver a 15% cost reduction per turnaround and result in direct cost savings of \$34 million.

### **International growth**

TransAlta is expanding into lucrative overseas markets. Last July, the company announced a new project to build, own, and operate a gas-fired power plant in Western Australia. The \$580 million deal is a good sign for investors. As TransAlta works through the process of winding down or converting its legacy assets it is also transitioning to more profitable new projects.

### **Should you buy?**

TransAlta is a contrarian play right now and an investment in the company requires patience. At this point, the downside should be limited but there could be further volatility before the stock trends higher.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

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