

## How to Get Paid to Turn on the Lights

### Description

Paying for your power or gas can be pretty painful, especially during the months of December and January. I've had gas bills that have exceeded \$200, with power being right up there as well. It's natural gas that heats your home, but it's the furnace that blows it throughout the house. That furnace fan runs on electricity, which is what causes both bills to spike in the winter.

I know people who grumble about the high costs of utilities all the time, but the cold winter seems to bring out that side of just about everyone. We can't help it. Like hockey and curling, it's practically a Canadian tradition.

It doesn't have to be this way. What if I told you there was a way that you could actually feel good about your monthly power bill? There is. All you need to do is buy **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) shares and collect enough dividends to cover your power bill.

### The simplicity of utilities

Whenever I hear anyone complain about the high price of a product or service, I'm always interested. Sure, I feel bad if someone legitimately got ripped off, but I'm mostly on the lookout for investment opportunities. A business that can charge people so much that they feel ripped off is something I want to own. Usually that means the business has an advantage that protects it from competition.

There are a couple of easy ways an investor can identify companies like this. The easiest method is to look in your mail. I'm not talking about junk mail, but the things you get bills for. Things like your phone, gas, and power aren't about to get replaced by some upstart competitor. The established players have invested billions in infrastructure; that kind of advantage doesn't go away overnight. In fact, it's likely it'll never go away without a revolutionary new way to generate power or to heat our homes.

That's why utilities are interesting to a lot of investors. They're irreplaceable services that have pricing power. When was the last time one of your utility bills actually went down? If they're anything like mine, the answer is never.

### Like getting paid to turn on the light switch

TransAlta is the largest power generator in the province of Alberta. It also has operations in the U.S., as well as a current expansion into Australia. Over the last couple years, business hasn't been great.

Essentially, it's been locked into some low prices in Alberta, where it generates most of its revenue. The company also has an aging fleet of coal-fired power plants, which occasionally need some extra maintenance. Everything came together badly in 2013, which led to not only poor earnings but a dividend cut as well.

A year later, the company's dividend looks pretty solid. For the first three quarters of 2014, TransAlta generated a little over \$200 million in free cash flow. The dividend cost the company \$140

million. That's a healthy payout ratio, especially for a company that pays a 6.4% dividend.

TransAlta's shares are cheap, too. The company trades at barely more than its book value, which is the cheapest it's been for a decade — at least by that metric. Higher power prices should be coming from Alberta too, and much of the big spending on the province's power plants happened in 2012-13. The future looks a lot brighter than it did a couple years ago.

Thanks to the company's generous dividend, it doesn't take that much to have it cover your entire power bill either. Assume your bill averages \$100 per month. At a dividend of \$0.72 per share annually, it takes about 1,670 shares of TransAlta to get dividends to cover your power bill, excluding any tax implications.

That's all it takes. Once you accumulate that many TransAlta shares, you'll have effectively eliminated one of your biggest monthly bills. Short of free unlimited energy from the sun, it's about as good as paying your power bill is going to get.

## CATEGORY

1. Energy Stocks
2. Investing

## TICKERS GLOBAL

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

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