

TransAlta Corporation Beats Earnings; Is it a Buy?

Description

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)), one of the largest power generators and wholesale marketers of electricity in North America and Australia, announced fourth-quarter earnings on February 19, and the results surpassed analysts' expectations on both the top and bottom lines. The company's stock responded to the release by rallying over 2.5% in the trading session that followed, so let's take a closer look at the results and the outlook for fiscal 2015 to determine if we should consider buying into this rally, or wait for it to subside.

Breaking down the better-than-expected results

Here's a summary of TransAlta's fourth-quarter earnings compared to what analysts had projected and its results in the same period a year ago.

Metric	Reported	Expected	Year Ago
Earnings Per Share	\$0.17	\$0.09	\$0.00
Revenue	\$718 million	\$593 million	\$587 million

Source: *Financial Times*

In the fourth quarter of fiscal 2014, TransAlta's comparable net income increased 4,500% to \$46 million, or \$0.17 per share, compared to \$1 million, or \$0.00 per share, in the year-ago period, as its revenue increased 22.3%. The company noted that these solid results could be attributed to strong availability throughout its generation portfolio, as well as continued improvement in its operational performance, higher margins in its Energy Marketing segment, and a successful hedging strategy that offset the negative impact of lower power prices in the Alberta market.

Here's a quick breakdown of eight other notable statistics and updates from the report compared to the year-ago period:

1. Average power prices in Alberta decreased 35.4% to \$31/MWh.
2. Comparable earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 24.4% to \$301 million.
3. Comparable funds from operations (FFO) increased 25.7% to \$225 million.
4. Cash flow from operating activities increased 51.5% to \$250 million.
5. Comparable free cash flow increased 70.5% to \$104 million.
6. Adjusted availability expanded 140 basis points to 93.2%.
7. TransAlta paid out a quarterly dividend of \$0.18 per share, compared to a dividend of \$0.29 per share in the year ago period.
8. The company ended the quarter with \$4.0 billion in long-term debt, a decrease of 7% year-over-year.

TransAlta provided its outlook on fiscal 2015, calling for the following performance:

- Comparable EBITDA in the range of \$1 billion-\$1.04 billion, compared to \$1.04 billion in fiscal 2014
- Comparable FFO in the range of \$720 million-\$770 million, compared to \$762 million in fiscal 2014
- Target fleet adjusted availability in the range of 89%-91%, compared to 90.5% in fiscal 2014

Should you buy TransAlta today?

TransAlta is one of the world's leading generators and wholesale marketers of electricity, and increased production and demand led it to a very strong fourth-quarter performance. The company achieved year-over-year growth of more than 20% in net income, earnings per share, revenue, EBITDA, FFO, cash flows from operations, and free cash flow, while surpassing analysts' expectations, and its stock responded accordingly by rising over 2.5%.

I think TransAlta's stock represents an intriguing long-term investment opportunity today, even after the post-earnings pop, because it still trades at favorable forward valuations, including just 16.6 times fiscal 2015's estimated earnings per share of \$0.43 and only 19.4 times fiscal 2016's estimated earnings per share of \$0.59. These are both very inexpensive compared to its five-year average price-to-earnings multiple of 27.

In addition, the company pays an annual dividend of \$0.72 per share, which gives its stock a very high 6.3% yield at current levels. I think this makes it qualify as both a value and dividend investment opportunity today.

With all of the information above in mind, I think TransAlta Corporation represents one of the best long-term investment opportunities in the energy industry today, so Foolish investors should take a closer look and consider establishing positions.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:TA (TransAlta Corporation)

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