TransAlta Corporation: Can You Count on the 6% Yield?

Description

TransAlta Corporation (TSX:TA)(NYSE:TAC) is in transition mode and dividend investors who have been following the story are finally starting to like what they see.

Tough times

Early last year, the situation was completely different. A perfect storm of falling power prices and expensive maintenance projects forced TransAlta to cut its much beloved dividend by 38%.

The move wasn't a big surprise, but yield seekers who had been hanging on to the stock finally threw in the towel and the remaining shareholders watched the ticker slide for most of 2014. In December the stock dropped below $10, hitting a point not seen in more than 20 years.

Since then the shares have rallied 20% and income investors are starting to return.

Stronger balance sheet

One reason for the renewed interest is the company's improved financial position. By the end of 2014, TransAlta managed to eliminate $500 million in debt. The company expects to reduce its obligations by another $300-500 million in 2015.

Pundits are also starting to realize that the earnings outlook is beginning to improve. The company has strong hedging positions in place that should ensure adequate cash flow to cover the dividend.

Low electricity prices in Alberta have been problematic for TransAlta but the long-term outlook is more positive. The expiration of legislated power purchase agreements in 2018 and 2021 should lead to much better cash flow.

On the expense side, TransAlta recently signed an agreement with Alstom for 10 large maintenance projects that will be completed at the Keephills and Sundance facilities. The work should take three years and result in a 15% cost reduction per turnaround, with direct cost savings of $34 million.

New projects

TransAlta is expanding into new markets at the same time that it works through the process of closing or converting its older coal-fired plants. One example is its $580 million gas-fired power plant project located in Western Australia.

The company plans to “drop down” as much as $3 billion of its contracted assets into its **TransAlta Renewables** subsidiary. The practice is popular with pipeline companies and is an efficient way to raise capital for new projects or acquisitions.

TransAlta currently has $650 million in committed long-term growth contracts. The company is expecting EBITDA improvements of $40-60 million per year and extra $90 million in EBITDA in 2017.

Should you buy TransAlta?

TransAlta still has a lot of work to do as it retires its legacy coal assets, but the darkest days are probably behind it. At this point, the dividend looks safe and investors should be able to sit back and collect a nice 6% yield while they wait for the transition to play out.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

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

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/26
Date Created
2015/03/23
Author
aswalker