

Should You Buy or Avoid TransAlta Corporation Following Mixed Q1 Results?

Description

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)), one of the largest power generators and wholesale marketers of electricity in North America and Australia, announced mixed first-quarter earnings results on the morning of April 28, and its stock has responded by making a slight move to the upside. Let's take a thorough look at the results to determine if we should consider establishing long-term positions today, or if we should wait for a better entry point in the trading sessions ahead.

The mixed first-quarter results

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

Metric	Reported	Expected	Year-Ago
Earnings Per Share	\$0.09	\$0.07	\$0.17
Revenue	\$593 million	\$655 million	\$775 million

Source: *Financial Times*

TransAlta's comparable earnings per share decreased 47.1% and its revenue decreased 23.5% compared with the first quarter of fiscal 2014. The company noted that these weak results could be attributed to its total production decreasing 18% to 9,900 gigawatt hours and the average spot price of power decreasing in all three of its markets, including a 52.5% decline to \$29 per megawatt hour in the Alberta market, a 52.8% decline to \$34 per megawatt hour in the Ontario market, and a 59.1% decline to US\$18 per megawatt hour in the Mid-Columbia market.

Here's a quick breakdown of 12 other notable statistics from the report compared with the year-ago period:

1. Comparable net income decreased 44.7% to \$26 million
2. Revenue decreased 3.1% to \$246 million in its Canadian Coal segment
3. Revenue decreased 22.6% to \$82 million in its U.S. Coal segment
4. Revenue decreased 26.1% to \$181 million in its Gas segment
5. Revenue decreased 8.8% to \$73 million in its Wind segment
6. Revenue decreased 19.4% to \$25 million in its Hydro segment
7. Revenue decreased 52.3% to \$31 million in its Energy Marketing segment
8. Comparable earnings before interest, taxes, depreciation, and amortization (EBITDA) decreased 11.3% to \$275 million
9. Comparable funds from operations decreased 11.3% to \$211 million
10. Comparable cash flow from operating activities decreased 45.2% to \$153 million
11. Comparable free cash flow decreased 20.9% to \$110 million
12. Ended the quarter with \$61 million in cash and cash equivalents, an increase of 41.9% from the

beginning of the quarter

Also, on April 27 TransAlta announced that it would be maintaining its quarterly dividend of \$0.18 per share, and the next payment will come on July 1 to shareholders of record at the close of business on June 1.

Is TransAlta's stock a buy today?

Even though TransAlta's first-quarter earnings were far from impressive, I do think its stock represents an attractive long-term investment opportunity because it trades at favourable valuations and has a very high dividend yield.

First, TransAlta's stock trades at 43.9 times fiscal 2015's estimated earnings per share of \$0.28, which may seem a bit high, but it trades at just 37.3 times fiscal 2016's estimated earnings per share of \$0.33, which is inexpensive given its long-term growth potential.

Second, TransAlta pays a quarterly dividend of \$0.18 per share, or \$0.72 per share annually, giving its stock a very high 5.85% yield at current levels, and I think this makes it one of the top dividend plays in the industry today.

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

CATEGORY

1. Energy Stocks
2. Investing

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