



## For Safe Utility Dividends, Look Somewhere Other Than TransAlta Corporation

### Description

Utilities are one of the most stable and consistent businesses, and they generally pay out juicy dividends. However, investors would be wise not to blindly buy any utility with high yields.

I'd like to point out why you should not buy **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) if you're looking for a stable income and capital preservation.

### TransAlta's earnings are volatile

For 20 years TransAlta's earnings per share has been a roller-coaster ride. Most recently it went from earning \$1.40 per share in 2010 to \$0.25 in 2014. During that period the earnings went down every year at a double-digit rate.

Since dividends are paid out from earnings, how can shareholders expect to receive a stable dividend if TransAlta's earnings are so volatile? TransAlta's dividends shouldn't be trusted.

### TransAlta and its high yield shouldn't be trusted

TransAlta showed how destructive it can be for an investor that bought its shares before its dividend cut in 2014. Imagine you bought its shares at \$21 per share in 2011 because you were enticed by its quarterly dividend of \$0.29 per share that yielded 5.5% at the time.

TransAlta devastated its shareholders when it cut its dividend to \$0.18 in 2014, a reduction of 38%. By that time, shares were trading under \$13. Not only did its shareholders get an income cut, they would have lost 38% of their investment if they had sold at that point.

The scary thing is, if they held on they would have lost 55% of their investment because the shares are now trading at an even lower price of \$9.50. Of course, it would have been worse if its shareholders decided to reinvest the dividends or to buy more shares with additional money.

### Better utility choices

I can't understand why anyone would buy TransAlta when there are so many other better utilities out there. These utilities show better track records of profitability and treat shareholders well by increasing dividends.

Both **Fortis Inc.** ([TSX:FTS](#)) and **Canadian Utilities Limited** ([TSX:CU](#)) have paid growing dividends for over 40 years. No matter how you look at it, their yields are much safer than TransAlta's, even though TransAlta gives a higher yield.

In other words, investors buying the high-quality utilities are receiving a lower yield in exchange for high quality, while investors buying TransAlta are receiving a high yield, but are taking on higher risk for a higher probability of income loss and capital loss. I would take the high-quality companies any day.

### **In conclusion**

Investors shouldn't buy TransAlta because there are better utilities out there that have shown a history of being profitable and have increased shareholders' wealth by returning more income back to them.

TransAlta cut its dividend before and it can do it again. Remember, the safest dividend is one that was just raised.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:TAC (TransAlta Corporation)
2. TSX:CU (Canadian Utilities Limited)
3. TSX:FTS (Fortis Inc.)
4. TSX:TA (TransAlta Corporation)

### **Category**

1. Investing

### **Date**

2025/08/25

### **Date Created**

2015/07/20

### **Author**

kayng

default watermark