



Is Atlantic Power Corp. a Turnaround Story Worth Buying into?

Description

Electric utilities can make fantastic defensive investments that offer not only solid yields, but virtually guaranteed long-term earnings growth despite fluctuations in the economic cycle.

Nonetheless, not all electric utilities are created the same; a number of utilities have run into difficulties in recent times.

One that has been battered particularly hard is **Atlantic Power Corp.** (TSX:ATP)(NYSE:AT). Over the last year its share price has fallen off a cliff, plunging a massive 31% with signs that there is further to go. The bad news for investors doesn't stop there. Analysts are increasingly concerned by the company's high degree of leverage and lack of meaningful growth opportunities.

Despite this bad news, there are signs that Atlantic Power may be able to turn its business around, offering contrarian risk-tolerant investors a long-term opportunity.

Now what?

The market's distaste for Atlantic Power stems from a multitude of sins on its part. The worst is how Atlantic Power overleveraged its balance sheet in order to make acquisitions of questionable quality. It also slashed its dividend twice in just two years as it battled to conserve cash flows and shore up its precarious balance sheet. The last dividend cut was announced in September of last year; it plunged by a hefty 70% in value and its yield dropped from a tantalizing 10% to just over 3%.

However, despite these negatives there are signs that Atlantic Power is getting its house in order, with a range of catalysts set to provide long-term upside. Key among these is the secular trend of cleaner sources of power generation; Atlantic Power generates over 80% of its electricity from clean energy sources including natural gas, biomass, and hydro.

Furthermore, it has recently completed a series of divestments that have raised just over US\$350 million that will be directed towards reducing its mountain of debt. It has also made considerable inroads into reducing costs with its 2016 general and administrative expenses forecast to fall by 26% when compared with 2015.

These are certainly positive developments for a company that has been struggling under the dual burdens of high costs and excessive debt. When these developments are considered in conjunction with the majority of its cash flow being generated by contractually protected power purchase agreements, I expect its cash flow profile to improve markedly.

So what?

It is easy to see why the market and investors have become disillusioned with Atlantic Power, but the recent changes to its operations, including asset sales and cost cutting, may just be the catalysts required to pull the company out of its doldrums. This, coupled with its stable locked-in cash flows and ability to benefit from the trend of clean energy generation, makes it an appealing, but somewhat speculative, long-term play.

Let's not forget that even after the savage dividend cuts, it is still yielding a very handy 3% that will reward patient investors as they wait for the business to turn around.

CATEGORY

1. Dividend Stocks
2. Investing

Category

1. Dividend Stocks
2. Investing

Date

2025/10/01

Date Created

2015/07/22

Author

mattdsmith

default watermark