Have TransAlta Corporation’s Shares Bottomed?

Description

TransAlta Corporation (TSX:TA)(NYSE:TAC), one of the largest power generators and wholesale marketers of electricity in North America and Australia, announced second-quarter earnings results before the market opened on July 29, and its stock has responded by falling over 2%. Let’s take a closer look at the results to determine if we should consider using this weakness as a long-term buying opportunity, or as a warning sign.

The results that sent its shares lower

Here’s a summary of TransAlta’s second-quarter earnings results compared with its results in the same period a year ago.

Metric	Q2 2015	Q2 2014
Earnings Per Share	($0.16)	($0.04)
Revenue	$438 million	$491 million

Source: TransAlta Corporation

In the second quarter of fiscal 2015, TransAlta reported a comparable net loss attributable to common shareholders of $44 million, or $0.16 per share, compared with a net loss of $12 million, or $0.04 per share, in the year-ago period, as its revenue decreased 10.8% to $438 million.

The company noted that these weak results could be attributed to “lower availability at Canadian coal” and “mark-to-market losses on financial contract hedging of future generation,” which could not be offset by a strong performance in its gas, wind, and hydro segments.

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

1. Adjusted availability contracted 450 basis points to 80.9%
2. Total production decreased 5% to 8,820 GWh

3. Comparable earnings before interest, taxes, depreciation, and amortization decreased 14.1% to $183 million
4. Comparable funds from operations increased 3.9% to $160 million
5. Comparable free cash flow increased 15% to $23 million

Was the post-earnings drop warranted?

It was a terrible quarter for TransAlta, so I think the post-earnings drop in its stock was warranted. I also think it could face continued weakness in the weeks ahead because the stock still trades at expensive forward valuations and because its dividend yield does not seem sustainable.

First, TransAlta's stock trades at 37.7 times fiscal 2015's estimated earnings per share of $0.22 and 28.6 times fiscal 2016's estimated earnings per share of $0.29, both of which are expensive compared with its five-year average price-to-earnings multiple of 28.4 and the industry average multiple of 21.1.

Second, TransAlta pays a quarterly dividend of $0.18 per share, or $0.72 per share annually, giving its stock a very high 8.7% yield, which does not seem sustainable given its weak performance in the first half of the year. The company already reduced its dividend by 37.9% in February 2014 as a result of lower power prices and unplanned outages, and I think it will announce another reduction in the very near future as a result of its mark-to-market losses and lower overall production this year.

With all of the information provided above in mind, I think Foolish investors should avoid TransAlta for the time being, and only revisit the idea of an investment if the company turns things around in the second half.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/26
Date Created

2015/07/30

Author

jsolitro