



Is Now Finally the Time to Buy TransAlta Corporation?

Description

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)), one of the largest power generators and wholesale marketers of electricity in Canada, the United States, and Australia, announced third-quarter earnings results before the market opened on October 30, and its stock has responded by making a slight move higher in the trading sessions since.

The company's stock still sits more than 50% below its 52-week high of \$12.50 reached back in April, so let's take a closer look at the results to determine if this could be the start of a sustained rally higher and if we should be long-term buyers today.

Breaking down the third-quarter performance

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

| Metric | Q3 2015 Actual | Q3 2015 Expected | Q3 2014 Actual |
|-------------------------------|----------------|------------------|----------------|
| Comparable Earnings Per Share | (\$0.12) | \$0.03 | (\$0.05) |
| Revenue | \$641 million | \$631.25 million | \$639 million |

Source: Financial Times

In the third quarter of fiscal 2015, TransAlta reported a comparable net loss attributable to common shareholders of \$33 million, or \$0.12 per share, compared to a comparable net loss of \$13 million, or \$0.05 per share, in the same period a year ago, as its revenue increased 0.3% year over year to \$641 million.

The company noted that its widened net loss in the third quarter could be attributed to "an increase in depreciation and amortization resulting from the strengthening U.S. dollar, an increase in asset retirements, and an increase in income tax expense due to an increase in taxable temporary differences."

Its slight revenue growth can be attributed to revenues increasing 19.4% to \$172 million in its U.S. Coal segment and 233.3% to \$10 million in its Energy Marketing segment, and this growth was able to more than offset the negative impact of its revenues decreasing in its other four segments.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Average Alberta power prices decreased 59.4% to \$26 per MWh
2. Revenues decreased 2.7% to \$253 million in its Canadian Coal segment
3. Revenues decreased 6% to \$140 million in its Gas segment
4. Revenues decreased 11.6% to \$38 million in its Wind segment
5. Revenues decreased 30% to \$28 million in its Hydro segment
6. Adjusted availability contracted 80 basis points to 91.2%
7. Total production decreased 5.3% to 10,839 GWh
8. Comparable earnings before interest, taxes, depreciation, and amortization increased 3.3% to \$219 million
9. Comparable funds from operations decreased 13.1% to \$126 million
10. Comparable free cash flow decreased 76.5% to \$8 million

What should you do with TransAlta's stock today?

It was a disappointing quarter overall for TransAlta, but its stock had fallen more than 40% year-to-date prior to the release, so I think the move higher is an indicator that its shares were already oversold.

In fact, its stock still trades at just 28.2 times fiscal 2015's estimated earnings per share of \$0.22 and only 27 times fiscal 2016's estimated earnings per share of \$0.23, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 93.6 and its five-year average multiple of 36.7, making it a clear value play today.

However, I also think TransAlta's current dividend rate is unsustainable. It pays a quarterly dividend of \$0.18 per share, or \$0.72 per share annually, which gives its stock a very high 11.6% yield.

This high of a yield does not seem sustainable given the company's weak financial performance year-to-date in fiscal 2015, including a 7.5% decline in comparable funds from operations and a 26.6% decline in comparable free cash flow. I think the company will announce a reduction in the near future to bring its yield closer to 6%, but this would still provide significant income for investors, so I do not think the stock would sell off as a result of the reduction.

With all of the information provided above in mind, I think Foolish investors should consider beginning to slowly scale in to long-term positions in TransAlta over the next couple of weeks.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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