



## TransAlta Corporation: Is This 13% Dividend Sustainable?

### Description

**TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) has by far the highest-yielding dividend on the **S&P/TSX 60** with its \$0.18 quarterly payout yielding nearly 13%.

Of course, whenever a dividend yields more than 10%, you have to question its sustainability. So will this payout hold up?

### A struggling business

TransAlta's high yield has been caused primarily by a falling stock price. So far this year the company's Canadian-listed shares have fallen by nearly 50%. One reason for this has been the new NDP government and its plans to curb carbon emissions.

But the main cause of TransAlta's downfall has been lower power prices. To put some perspective on this, the power price in Alberta fell by nearly 60% year over year in the most recent quarter. Hedging has offset much of that decline, but of course that strategy can only last for so long.

### The numbers

Through three quarters this year TransAlta has generated roughly \$140 million in "comparable free cash flow." Meanwhile, the company's dividend costs about \$50 million per quarter. At first glance, TransAlta is nearly able to cover its dividend with cash flow.

But in reality the news is much worse. TransAlta has locked in fixed pricing for nearly 90% of its power in 2015 with a fixed price of \$50 per MWh in Alberta (nearly double the market price). Many of these hedges start to roll over in 2018, meaning that unless power prices start to recover meaningfully, cash flow will seriously deteriorate.

Making matters worse, TransAlta's balance sheet has become a major concern, with total debt of nearly \$4.4 billion. The company has a credit rating one notch above junk from all three major credit rating agencies. That's not the kind of situation a dividend investor wants to be in.

## The verdict

If the last 12 months have taught investors anything, it's that we shouldn't be chasing the highest-yielding dividends.

If you want to make a bet on Albertan power prices—perhaps you believe that the NDP's environmental plans will result in skyrocketing rates—then TransAlta would be one (risky) way to do so. Otherwise, you should look elsewhere for dividends.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

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

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