The Case to Buy TransAlta Renewables Inc. Today

Description

If you have cash on hand and are looking for a great stock to buy, then **TransAlta Renewables Inc.** (TSX:RNW) should be one of the top stocks on your shopping list. Let's take a closer look at why it belongs in your portfolio.

High-quality assets that are in high demand

TransAlta is one of the world's largest owners and operators of clean-energy assets. Its portfolio consists of ownership interests in 18 wind facilities, 13 hydroelectric facilities, eight natural gas–generation facilities, and one natural gas pipeline, representing an ownership interest of 2,441 megawatts (MW) of net generating capacity. These assets are located in the Canadian provinces of British Columbia, Alberta, Ontario, Quebec, and New Brunswick, the U.S. state of Wyoming, and the Australian state of Western Australia.

The beauty of TransAlta's assets is that they involve long-term contracts with high-quality counterparties, including the Ontario Power Authority, **Suncor Energy Inc.**, Horizon Power, BC Hydro, Hydro Quebec, and Nova Chemicals, resulting in stable and predictable cash flows.

This allows the company to use its cash flows to further expand its portfolio, while also providing its shareholders with a growing stream of dividends. Also, clean energy is the fastest-growing segment of the energy industry, and the demand for it continues to grow as countries around the world try to reduce their carbon footprints.

A strong track record of growth

TransAlta has been growing at a rapid pace since its initial public offering (IPO) in 2013, and this trend has continued in 2016.

Its renewable energy production is up 13.8% to 1,885 gigawatt hours, its comparable earnings before interest, taxes, depreciation, and amortization are up 88% to $203 million, its adjusted funds from operations are up 3.4% to $0.61 per share, and its comparable cash available for distribution (CAFD) is up 5.9% to $0.54 per share in the first half of the year compared with the year-ago period.

TransAlta's strong financial performance in the first half of the year was driven by its acquisition of ownership interests in five power-generation facilities and a gas pipeline in Western Australia, which closed in May 2015, and its acquisition of ownership interests in three power-generation facilities in Canada, which closed in January of this year.

And the growth won't slow anytime soon

TransAlta's growth prospects are also very strong going forward. It has plans to continue expanding its portfolio. In fact, its South Hedland power station in Western Australia is under construction and expected to be completed in mid-2017. Its capacity is already fully contracted, which means it will immediately be accretive to TransAlta's cash flows upon commissioning.

It has also stated that it will continue to pursue additional growth through acquisitions, while improving its operational efficiency at its existing facilities.

A high and safe yield with a hike on the way

TransAlta's strong and stable cash flows allow it to pay a monthly dividend of $0.07333 per share, representing $0.88 per share on an annualized basis, and this gives its stock a very high yield of about 6% at today's levels. This yield is easily confirmed as being safe when you consider that its CAFD totaled $0.54 per share and its dividend payments totaled just $0.44 per share in the first half of the year, resulting in an 81.5% payout ratio, which is at the low end of its target range of 80-85%.

On top of having a high and safe dividend yield, TransAlta is one of the industry's best dividend-growth plays. It has raised its annual payment every year since its IPO in 2013, including a compound annual growth rate of about 6% in that span, which means it's currently on pace for 2016 to mark the third consecutive year with an increase.

TransAlta has also stated that it will raise its dividend by another 6-7% once its South Hedland power station is commissioned in mid-2017, and I think it's safe to assume that this streak will continue in 2018 and beyond as it adds more assets to its portfolio.

What more could an investor want?

TransAlta Renewables has a growing portfolio of high-quality infrastructure assets in the fastest-growing segment of the energy industry, and it is both a high-dividend and dividend-growth play, all of which make it a strong buy in my book. If you agree, take a closer look and strongly consider making it a core holding today.

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1. Editor's Choice

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Date
2025/07/21
Date Created
2016/08/19
Author
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