



TransAlta Corporation: Time to Buy This Stock?

Description

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)) has been in a downtrend for the past eight years, but better days might finally be on the horizon.

Let's take a look at the current situation to see if this electricity producer deserves to be a contrarian pick right now.

Tough times

TransAlta is an electricity producer with significant assets located in Alberta.

Weak power prices, the oil rout, and government moves to eliminate the use of coal to create electricity have taken a heavy toll on TransAlta and its shareholders in recent years.

How bad has it been?

TransAlta traded for more than \$35 per share in 2008. Today, investors can pick it up for about \$6.

The stock was once revered as a stable dividend holding, but a series of distribution cuts has chased away most income investors, and uncertainty surrounding the Albertan energy market has kept value investors on the sidelines.

Better days ahead?

TransAlta has come back to life in recent trading sessions on news the Alberta government is overhauling its electricity market.

The province will switch from an energy-only market to a capacity market as a means of attracting new investment in green energy production to help offset the removal of coal-fired generation by 2030.

Under the new system, producers will be paid for the capacity they have available, plus their production. This will encourage investment in environmentally friendly production.

Prices are currently determined 100% by market conditions, which deters companies from investing due to the uncertainty of future demand or supply.

Alberta gets half of its electricity from coal-fired plants, so new investment is required to replace the facilities by the 2030 deadline.

Effect on TransAlta

TransAlta is in the process of switching some of its coal plants to run on natural gas. The company is also looking to invest in new generation facilities.

CEO Dawn Farrell supports the new market structure and was present when the Alberta government made the announcement. Farrell said TransAlta will remain the largest power-generation investor in Alberta.

Should you buy?

The announcement lifts uncertainty in the Albertan energy market, which should bode well for TransAlta's stock.

If you read between the lines, it also looks like the province realizes it needs to have healthy power companies to meet its objectives. As a result, TransAlta should be a winner under the new system.

The situation will remain difficult in the near term, but TransAlta looks like an attractive contrarian pick today for investors with a buy-and-hold strategy.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Date

2025/08/26

Date Created

2016/11/24

Author

aswalker

default watermark