



TransAlta Corporation: A Turnaround Story Trading at a Bargain Price

Description

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)) is an Alberta-based power-generation company that's been hammered over the past five years for all the right reasons. It has had weak revenue due to low regional power prices, weak oil-patch activity flattening demand, and a newly elected provincial government which is intent on phasing out coal power generation by 2030.

The company has slashed its annual dividend from \$1.16 per year to less than \$0.12 per year to free up cash and invest internally to convert its existing coal plants into gas plants.

At this point, the company is trading so cheaply that a prudent investor could have significant upside at today's valuation. Not only can the company convert to a stable, dividend-paying utility company, but there are three specific points that can lead to a potential further surge in share price.

First, the company currently holds 62% of **TransAlta Renewables** ([TSX:RNW](#)), a stake worth ~\$1.9 billion. This asset is important for two reasons: a) investing in renewable energy has become a hot-button issue, and support has been one of the Trudeau government's mandates; it is safe to say that both legislative support and funding for this sector will not be cut any time soon; and b) TransAlta Renewables is on track to pay out just under \$200 million this year in dividends; these distributions can be channeled back into TransAlta's free cash flow and its investments.

Second, TransAlta is still maintaining a small dividend worth roughly \$100 million each year. It is my speculation that this dividend is currently being maintained to keep some institutional investors interested in maintaining a stake in the company. However, cutting the whole dividend could free up additional cash flow to cover for unexpected expenses and/or help manage the company's debt.

And third, the Albertan government has just settled with three utility companies (including TransAlta) and will pay \$97 million per year until 2030 in return for the early phasing out of six coal plants. This was a heavy uncertainty surrounding the company which has now been solved. As the future of the company becomes more clear, and as the investments come to fruition, the company's shares will likely trade at a fairer cash flow valuation.

TransAlta's shares have been punished so heavily over the years that the company can be bought at a

bargain-bin price. Foolish investors who can buy stock at a reasonable level could have tremendous upside if the company properly executes its transformation and is able to afford to once again churn out a healthy dividend.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/08/25

Date Created

2016/11/30

Author

jeffho

default watermark

default watermark