



Clean Energy, Strong Dividend: TransAlta Renewables Inc. Is a Lasting Legacy

Description

TransAlta Renewables Inc. ([TSX:RNW](#)) is one of the largest clean energy providers in the world. It is the child that its parent company **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) spun out in 2013 at \$10 dollars per share.

TA Corp. endowed its offspring with all the clean energy components from its energy portfolio: natural gas generators, wind farms, hydroelectric assets, and a natural gas pipeline.

TA Renewables has proved a prodigy since its inception, steadily eddying up its stock price to a \$13.60. It has raised its annual dividend payment every year and currently sports a very generous 6.7% common share dividend.

TA Renewables has been awarded a higher market capitalization than its parent with a valuation of \$3 billion. TA Corp. trades at \$7 and change and pays a 2.22%, yet its market capitalization is only \$2 billion, but TA Corp. owns 60% of TA Renewables's common shares.

Huh? Do the math: 60% of \$3 billion is \$1.8 billion. So, TA Corp. is essentially trading just for the value of its stake in TA Renewables.

What does this mean?

This means that TA Renewables represents the future of the energy business. The 20% operating margins it enjoys on its modern, green energy products makes it the company and the stock of the future.

Its old-school energy firm parent company TA Corp., is not as economically viable as TA Renewables with a meagre 2.5% operating margin as it struggles selling "dirty" energy products.

It also means, funnily enough, that TA Corp. is achingly cheap. The market is not granting the energy company any value for its legacy energy assets other than for its humongous TA Renewables stake.

Don't forget, TA Corp. is a 60% common shareholder in TA Renewables. Therefore, it will receive

about \$115 million from TA Renewables this year in dividend payments. Remember this company's history is one of growing dividends every year since its inception.

So, when the child TA Renewables prospers, so does the parent TA Corp. In fact, TA Corp. will be subsidized until 2030 to the tune of \$37 million dollars a year by the Alberta Government for the premature closure of its coal plants. Ironically, the future looks brighter and greener for this fossil fuel dinosaur.

It must be noted that in the event of a future takeover of TA Renewables, both TA Renewables's and TA Corp.'s shares would enjoy a hefty premium.

I believe both companies are fantastic buys at these price levels. I would buy two-thirds of my purchase dollar amount in TA Renewables shares and place the rest of my money (the other 33% of my buy) on undervalued TA Corp. shares.

If one purchased the stocks in these fractions, the blended annual dividend the investor would receive would be about 5.3%.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

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Author

drewcurrah

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