



Where Will TransAlta Corporation Go From Here?

Description

Since November 15, shares of **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) have risen from \$5.20 to a current price of approximately \$7.25, translating to a gain of almost 40%. By any standards, a 40% return in half of a month is excellent.

In the business of producing electricity and selling it, this is a company with consistent revenues, expenses, and, as investors would hope, consistent profits and dividends. In this particular case, however, the profit has been negative in three of the past four years. In 2016 the company has lost money in one quarter and, in total, made a profit of \$0.20 YTD (year-to-date).

Looking at the demand for electricity in Canada throughout the year, it makes perfect sense that the quarterly profit for the quarter ending in March was \$0.22 per share, followed by a profit of \$0.02 per share in the second quarter and a loss of \$0.04 in the third quarter. It is important to note the third-quarter loss was for the months of July, August, and September.

Looking at past years, the total earnings and dividends have declined steadily. For the year ending December 31, 2012, the earnings were a loss of \$1.69 per share, while the company paid dividends of \$1.16 per share. In 2013 things improved with a loss of only \$0.35 per share and dividends unchanged. In 2014 and 2015, dividends were \$0.72 per share and earnings were \$0.49 in 2014 and a loss of \$0.65 in 2015.

An important saying in financial markets is, "The trend is your friend."

As is very clear from the past five years of data, the company is in a clear downtrend. For 2016, the dividend has been \$0.04 per share per quarter. It has never been lower since the company came to the public market in 1999.

Currently trading at a price-to-earnings ratio close to 2,000 times, this investment should not be of interest to value investors. At a price of \$7.25 per share, the dividend yield is no more than 2.25%. What looked like fantastic opportunity at \$5.20 is no longer.

The rationalization for purchasing today would be the tangible book value. After removing goodwill, the

company is worth \$10.23 per share. The conundrum faced by management and investors in turn is the trend of losses suffered by the company.

In the case of TransAlta Corporation, the trend is clearly negative. The earnings per share are not increasing, the revenues have not increased, but the shares outstanding have increased year after year. In 2012, there were almost 255 million shares outstanding. It has grown to almost 288 million as of the end of the third quarter.

Conclusion

Although the company is in a highly consistent business, the reality is, the revenues and profit have not been increasing in a way we need to see before committing our capital. With a dividend yield under 3%, this investment is one which will have to wait.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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

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