



TransAlta Corporation: Is it Finally Time to Own This Stock?

Description

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)) has been a dud for several years, but recent developments in Alberta could signal better times on the horizon.

Let's take a look at the power producer to see if it deserves to be in your portfolio.

Coal deal

TransAlta owns a number of coal-fired power plants in Alberta, and uncertainty around the future of those assets has been a big reason the company's stock has been under so much pressure.

The federal government had a plan in place to eliminate the use of coal with older plants targeted for shutdown or conversion by 2030, and some of the newer plants being allowed to operate as late as 2061.

When Alberta's NDP government came into power last spring, it brought a mandate to fast-track the province's move away from coal-fired power generation.

For several months, TransAlta's investors have wondered how a deal would be worked out, and the answer finally came November 24.

What's the scoop?

Alberta will pay existing coal-plant owners a total of \$97 million per year from 2017 to 2030 to shut down or convert all coal-fired plants in the province by 2030.

TransAlta will receive about \$37.4 million per year from Alberta as an incentive to convert a number of its coal-fired plants to gas-fired power generation by 2023.

New market structure

Alberta is also changing the structure of its electricity market. The new system will be a “capacity” market rather than one based on free-market pricing.

The idea is to pay power producers for their production capacity as well as the power they produce. This will encourage the new investment in green-energy infrastructure that is needed to replace the outgoing coal plants, which currently supply about half of Alberta’s power.

Financial results

TransAlta reported decent Q3 2016 results.

The company generated \$163 million in funds from operations (FFO), which was \$37 million higher than the same period last year. Comparable EBITDA rose from \$219 million in Q3 2015 to \$244 million in the latest quarter.

Most of the company’s operating segments had stronger year-over-year results, so things are slowly moving in the right direction.

As of September 30, TransAlta had \$2.1 billion in total credit facilities, of which \$1.5 billion remained available. The company is in full compliance with the terms of its credit facilities and has full access to all undrawn funds.

Should you buy?

Weak power prices are expected to continue in the near term, so investors shouldn’t bet on a huge jump in cash flow to power the stock higher.

However, TransAlta is attractive based on the recent agreements with Alberta for transition payments and the restructuring of the power market.

The CEO says TransAlta plans to remain the largest investor in Alberta’s electricity-generation market. If you read between the lines, that suggests the company is comfortable with the deal it has negotiated with the province.

As such, I think investors with a buy-and-hold strategy will do well owning this stock over the next decade.

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1. Editor's Choice

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Date

2025/07/03

Date Created

2016/12/09

Author

aswalker

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