



Contrarian Investors: Is TransAlta Corporation a Top Turnaround Pick?

Description

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)) has been a dog for most of the past five years, but recent events suggest the dark days might be over.

Let's take a look at the current situation to see if this is the right time to own the stock.

Tough times

TransAlta was once considered a rock-solid dividend stock.

Unfortunately, the company had to drastically reduce the payout in recent years as weak power prices put pressure on the balance sheet.

Income investors who had relied on the attractive payments bailed out, and contrarians stayed on the sidelines, as uncertainty around the coal assets put the company's future in question.

The result has been nothing short of a bloodbath for long-term holders of the stock. The shares dropped from above \$20 per share five years ago to less than \$4 in January 2016. At the time of writing, TransAlta trades for \$7.30 per share.

Better times ahead

Alberta recently released its plans for the province's coal plants, and it looks like TransAlta will be adequately compensated for transitioning its coal facilities.

Under the deal, TransAlta will receive annual payments of \$37.4 million from 2017 to 2030. In exchange, TransAlta will convert a number of its coal facilities to run on natural gas by 2023. The company has also committed to remain a major investor in new power generation projects in the province.

Alberta gets about half of its current power from coal-fired facilities, so there is a need for new investment in green energy assets, and TransAlta is a key partner in the long-term plan.

In order to provide an incentive for new investment, Alberta is switching its electricity market from one that is primarily based on free-market pricing to a “capacity” market, where power producers are paid for their production capacity as well as the power they produce.

The combination of the transition payments and the new energy market should clear up most of the uncertainty regarding TransAlta’s future. Investors are already showing their approval, as the stock price is up about 40% since November 14.

Should you buy?

TransAlta has done a good job of cutting costs and reducing its debt load over the past two years. Power prices remain weak, but a rebound in the energy sector could help alleviate that problem in the medium term.

I wouldn’t expect a major surge in the stock in 2017, but investors with a buy-and-hold strategy should do well holding this name over the next five years.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

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2. TSX:TA (TransAlta Corporation)

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Date

2025/08/25

Date Created

2016/12/20

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