



TransAlta Corporation: Is a Dividend Increase in the Works?

Description

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)) finally appears to be on the road to recovery.

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

A terrible run

Five years ago, TransAlta was a dividend darling trading for more than \$20 per share. If you look back to 2008, the stock was above \$35.

Unfortunately, the company ran into a wave of trouble, including falling power prices, excessive debt, and political opposition to coal-fired power generation.

As a result, TransAlta was forced to slash the dividend several times. This led to an exodus by long-term dividend investors, and the stock fell like a rock.

How bad did it get?

At one point in January 2016, TransAlta traded for a mere \$4 per share.

Ouch!

Investors who had the guts to get in at that level are now looking at close to 100% gains, and there is reason to believe more upside could be on the way.

Better days ahead

TransAlta recently came to an agreement with Alberta on a payment plan to assist with the transition out of coal. The company will receive about \$37 million per year from 2017 to 2030 as compensation for switching over its plants to use natural gas.

TransAlta has also committed to remaining a top investor in Alberta's power industry.

Alberta gets about half of its electricity from coal-fired plants, so there has to be an incentive to get power producers to build renewable energy facilities to replace the retiring coal plants.

In order to foster the investment, Alberta is changing its power market to pay producers for their capacity as well as the power they produce.

This change, in combination with the transition payments, sets TransAlta up well to grow in the coming years.

Should you buy?

Investors shouldn't expect the stock to rocket higher in 2017, as power prices remain low and are not expected to increase significantly until the energy industry gets back on its legs.

However, the outlook is promising for the medium to long term, and investors currently get a decent 2% yield with a shot at renewed dividend growth as power prices improve.

If you have some patience, this stock could once again be a top dividend play and still looks reasonably priced.

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Author

aswalker

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