

TransAlta Corporation: A Beaten-Up Stock Ready to Bounce?

Description

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)) has been a nightmare for investors in recent years, but there are strong indications the pain might be over.

Let's take a look at the current situation to see if TransAlta deserves to be in your portfolio.

Tough times

Falling power prices, high debt, and negative sentiment towards coal-fired electricity producers forced TransAlta to cut its long-beloved dividend, sending investors for the exits.

The oil rout made the situation even worse, and the stock, which traded for \$19 per share five years ago, bottomed out below \$4 in early 2016.

Bargain hunters who had the courage to buy at that point are now sitting on some nice gains, and more upside could be on the way.

Recovery on the horizon

TransAlta and the Albertan government worked out a deal in 2016 that will see the province pay the company more than \$37 million per year through 2030 to help cover the costs of transitioning the existing coal plants to natural gas.

In addition, Alberta is changing its power market to pay producers for their production capacity as well as the power they produce. This should provide the incentive needed to get power companies to invest in renewable energy assets to replace the electricity production that will be lost due to the closure of older coal plants.

TransAlta has committed to remain a key player in the industry as part of its agreement with the province.

Value play

At the current price of about \$7.60 per share, TransAlta is catching the eye of value investors.

Why?

The company has a market capitalization of about \$2.2 billion, but the value of its 64% stake in **TransAlta Renewables** ([TSX:RNW](#)) is about \$2.25 billion.

Should you buy?

The uncertainty in Alberta is pretty much sorted out, debt is coming down, and the current dividend

should be safe.

Power prices are expected to remain weak in the near term, but investors with a buy-and-hold strategy can collect a 2% yield and wait for the market to figure out this stock is still oversold.

At the current valuation, it wouldn't be a surprise to see TransAlta become a takeover target.

CATEGORY

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2. TSX:RNW (TransAlta Renewables)
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