



TransAlta Corporation: Is it Time to Buy?

Description

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)) is giving back some of its recent gains, and investors who have been waiting on the sidelines are wondering if this is the right time to buy.

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

Changes in Alberta

TransAlta just announced plans to fast-track the company's transition to gas and renewables power generation.

The firm says it will retire its coal-fired Sundance 1 plant effective January 1, 2018 and mothball the Sundance 2 plant the same day for a period of up to two years.

In addition, the conversions of the company's Sundance 3 and 4 units and Keephills 1 and 2 units from coal to natural gas will occur between 2021 and 2023, extending the useful life of the facilities to around 2035.

In order to meet this schedule, TransAlta is beginning the process of securing adequate natural gas supplies, which would be as much as 700 million cubic feet of gas per day.

The company is working through the transition process after negotiating a deal last year with Alberta that will see the province assist TransAlta and other coal-fired power producers in their efforts to eliminate the use of coal by 2030.

Under the agreement, TransAlta will receive about \$37 million per year through 2030 to help it make the switch.

In addition, Alberta is altering its power market so that it will pay producers for capacity and well as the power they produce.

Coal-fired plants produce about half of Alberta's existing power production, so there will have to be

new investment in renewable sources to fill the gap left by coal plants that are being decommissioned.

The new system is designed to attract investment, and TransAlta has committed to remaining a major player in Alberta's power market.

In the latest announcement, TransAlta said the transition from gas to coal will cost about \$300 million. The company expects to fully fund the capital requirements with free cash flow.

That's good news because it means investors don't have to worry about the company taking on additional debt to get it through the process.

Should you buy?

Some value investors think TransAlta is a screaming bargain.

Why?

The company's 64% stake in TransAlta Renewables is currently worth about \$2.25 billion, yet TransAlta's market capitalization is \$2.04 billion.

Power prices remain weak in Alberta and there is little evidence to suggest the situation will improve much in the near term, so I wouldn't expect the stock to surge anytime soon.

However, it appears the uncertainty about the company's future in Alberta has been more or less sorted out and the market might not be pricing that in yet.

I wouldn't back up the truck, but if you have buy-and-hold investing style, it might be worthwhile to take a small position and simply sit on the stock for the next decade or two.

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