



Contrarian Investors: Should You Buy TransAlta Corporation Today?

Description

Contrarian investors are constantly searching for unloved stocks that might be on the verge of a recovery.

Let's take a look at **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) to see if it deserves to be in your portfolio.

Tough times

A perfect storm of high debt, falling energy prices, and negative sentiment towards coal-fired power has hit TransAlta hard in recent years.

How hard?

In early 2012, TransAlta traded for more than \$20 per share and paid out a quarterly dividend of \$0.29. Today, the distribution is just \$0.04 per share, and investors can pick up the stock for less than \$8.

Weak power prices are expected to continue in Alberta in the near term, but there are indications TransAlta's slide could be over.

Outlook in Alberta

Alberta finalized its agreements with coal-fired power producers last year, removing one of the big unknowns for TransAlta. Under the deal, TransAlta will receive about \$37 million per year through 2030 to help it transition away from coal.

TransAlta plans to retire one of its facilities in January next year and close another at the same time for up to two years. The shutdowns are not expected to have a material impact on cash flow over 2018 and 2019.

The company will convert six other plants from coal to natural gas between 2021 and 2023, extending their useful lives beyond 2030.

In addition to providing transition payments, Alberta is changing the structure of the power market.

Going forward, the province will pay producers for capacity as well as the power they generate. This is designed to provide incentives for new investment in renewable power.

Alberta relies on coal-fired plants for about half of its electricity, so new sources are needed to replace coal facilities that will be shut down.

TransAlta has committed to remain a major player in the market.

Financials

TransAlta reported steady Q1 2017 results and continues to reduce its leverage. Total EBITDA was \$274 million compared to \$279 million in Q1 2016.

Strong free cash flow and the proceeds from an asset sale helped the company reduce total debt, net of cash, by \$244 million in the quarter to \$3.65 billion.

Ownership in TransAlta Renewables

Some pundits believe TransAlta is severely oversold.

At the time of writing, TransAlta's 64% ownership position of **TransAlta Renewables Inc.** ([TSX:RNW](#)) is worth about \$2.28 billion, while TransAlta's market cap is just \$2.24 billion.

Should you buy?

Weak power prices persist in Alberta, and investors probably won't see the situation improve much in the near term.

However, the uncertainty over the company's future in the province is largely addressed, and the new market structure for power producers should be favourable over the long run.

This one requires some patience, but investors with a buy-and-hold strategy might want to start nibbling while the stock remains out of favour.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:RNW (TransAlta Renewables)
3. TSX:TA (TransAlta Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Yahoo CA

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/07/06

Date Created

2017/05/23

Author

aswalker

default watermark

default watermark