



Contrarian Investors: Should You Buy This Unloved Canadian Stock?

Description

Contrarian investors are always searching for troubled stocks that could be on the cusp of a turnaround.

Let's take a look at **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) to see if it is attractive right now.

Tough times

TransAlta has had a rough ride in recent years, as high debt, falling power prices, and opposition to coal-fired electricity production combined to form a perfect storm for the company.

As a result, TransAlta was forced to reduce its dividend several times, and the stock plunged in step.

How bad has it been?

The share price fell from above \$30 a decade ago to \$4 early last year. The dividend peaked at \$0.29 per share but is now just \$0.04.

Better days ahead?

Investors who had the guts to get in at the bottom have since doubled their money, and more gains could be on the way.

Why?

Alberta signed a deal with power producers last year to help finance the transition away from coal-fired units. Some facilities will be shut down and others are being converted to natural gas.

Under the agreement, TransAlta will receive approximately \$37.4 million per year through 2030 to help it make the transition and has committed to remain a major player in Alberta's power market.

Alberta relies on coal-fired plants for up to half of its current electricity generation, so investment is needed to replace lost production. TransAlta is expected to play a role in that process.

Value play?

TransAlta owns 64% of **TransAlta Renewables Inc.** ([TSX:RNW](#)). At the time of writing, that stake is worth about \$2.24 billion, which translates into \$7.78 per share of TransAlta.

TransAlta is trading for \$8 per share, so investors are paying very little for the assets that have not been dropped down into RNW.

Should you buy?

Power prices remain under pressure, so I wouldn't expect a big rally in the stock in the near term. However, the uncertainty over the company's future in Alberta appears to be sorted out, and the market doesn't seem to be appreciating the longer-term opportunities for the company.

As such, I think investors with a buy-and-hold strategy will do well with this stock over time.

CATEGORY

1. Energy Stocks
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