



## Should You Buy TransAlta Corporation Today?

### Description

Contrarian investors are searching for unloved stocks that could deliver some impressive gains in the coming years.

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

### Tough times

TransAlta used to be a favourite among dividend investors, but the company ran into some difficulties in recent years and had to cut the distribution several times.

As a result, the dividend crowd has pretty much abandoned the stock, but value investors are wondering if the sell-off has gone too far.

What happened?

Falling power prices in Alberta, debt problems, and a negative view on coal-fired power plants combined to hit the company hard.

In fact, the stock fell from \$20 in 2011 to \$4 early last year. At the time of writing, investors can pick it up for \$7.70.

Low power prices are still an issue, but the company has done a good job of reducing debt, and a new deal in Alberta clears up the uncertainty on the company's future in the province.

### Better days on the horizon?

Under the agreement, Alberta will pay TransAlta transition payments of about \$36 million per year through 2030 to help it shift its power production away from coal to gas-fired operations.

In addition, the province is changing the system to pay producers for capacity as well as the power they generate. This should help provide the necessary incentives for companies to invest in renewable

energy solutions to offset the closure of some of the coal plants.

TransAlta has committed to remain an important player in the province.

### **Steady numbers**

TransAlta reported decent Q2 2017 results. The company delivered comparable EBITDA of \$268 million, which was \$20 million higher than the same period last year. Funds from operations (FFO) improved by \$12 million.

The company reported lower year-over-year Q2 free cash flow and reduced its 2017 free cash flow guidance by 10% due to additional capital spending and expected “headwinds” in the second half of the year.

Investors will have to keep an eye on the free cash flow results in the coming quarters.

### **Value play?**

TransAlta owns a 64% stake in **TransAlta Renewables**. At the time of writing, that position is worth about \$2.3 billion, yet TransAlta’s market capitalization is currently \$2.2 billion.

### **Should you buy?**

Power prices remain under pressure, and that isn’t expected to change much in the near term. However, the company’s debt position is better than it was, and the uncertainty in Alberta should be sorted out.

If you have a contrarian buy-and-hold investing style, it might be worthwhile to start a position in TransAlta while the stock is still out of favour.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

### **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

### **Category**

1. Energy Stocks
2. Investing

**Date**

2025/07/05

**Date Created**

2017/09/15

**Author**

aswalker

default watermark

default watermark