



Contrarian Investors: Is TransAlta Corporation a Top Pick for 2018?

Description

Contrarian investors are searching for unloved stocks that could be on the verge of a nice [recovery](#).

Let's take a look at **TransAlta Corporation** ([TSX:TA](#)) ([NYSE:TAC](#)) to see why it might be an interesting 2018 choice.

Difficult times

TransAlta was once a popular stock among dividend investor, but a perfect storm of lower power prices, high debt, and negative sentiment towards coal-fired power plants hit the company hard and forced management to cut the distribution twice from \$0.29 per share to \$0.18 and then again to \$0.04, where it currently stands.

The stock also plunged from \$16 per share five years ago to about \$4 in early 2016. Investors who had the courage to buy at that point are now sitting on some nice gains, and more upside could be on the way.

Why?

Alberta negotiated agreements with TransAlta and other coal-fired power suppliers to help transition some plants to natural gas and close others. TransAlta will receive about \$37 million per year through 2030 as it makes the changes to its fleet.

In addition, Alberta is modifying its power market to pay producers for capacity, as well as power production in an effort to attract new clean-energy investment to replace some of the power generation that is being lost through the closing of coal plants.

TransAlta has agreed to remain a key player in the Alberta market.

The company just announced plans to accelerate its transition to gas and renewables generation and expects to reap \$30-50 million in annual carbon credits under Alberta's latest version of the carbon tax program.

TransAlta is reducing debt faster than originally planned and is targeting free cash flow of \$275-350 million next year.

Some value investors think TransAlta remains heavily oversold. At the time of writing, the company has a market capitalization of about \$2.3 billion. The value of its 64% ownership of TransAlta Renewables is about \$2.1 billion, so the market isn't putting much value on the legacy assets.

Should you buy?

The current dividend should be safe and provides a yield of 2%. As debt comes down and power prices improve, investors could see the distribution begin to rise again.

The stock probably won't rocket higher in 2018, but a continuation of the recovery that began last year could be in the cards now that the [uncertainty](#) is cleared up surrounding the company's future in Alberta.

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

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