



When a Dividend Yield Is Enough

Description

After selling off over the past six weeks, shares of **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) are potentially starting to find a bottom, as the 10-day simple moving average (SMA) has started to catch up with the share price, which has finally stopped declining on a near-daily basis.

Although the [company](#) still derives a significant amount of revenue from coal, the truth is that the ongoing obligations of the company, such as the dividend and capital expenditures, are minimal. As there is potentially excess capital available to shareholders, the question that long-term investors must ask themselves is this: when is the right time to buy?

At a current price of \$6.54 per share, the company is now offering investors a dividend yield of almost 2.5%, which is better than the 10-year bond yields offered by the Government of Canada. To make the investment even more attractive, the company carries tangible book value per share in excess of \$10. At a 35% discount, investors may be getting a steal of a deal!

Regarding the cash flows available to shareholders, the cash flows from operations (CFO) were \$545 million for the first three quarters of the 2017 fiscal year, of which \$311 million were spent on long-term capital. The dividends (remember the 2.5% yield?) used up only \$65 million of cash.

For the 2016 full fiscal year, the CFO was \$744 million, the capital expenditures \$379 million, and the dividends were \$111 million. The benefactor of this low payout ratio has been the owners of common equity as the bottom line of the balance sheet: shareholders' equity has steadily increased. The company has also seen decreasing debt and an increase in cash. Although the total amount of cash on the balance sheet has at times declined due to the repayment of debt, the reality is that there continues to be a build-up in value available to shareholders willing to take the plunge and remain patient.

Although most utility companies have steadily paid out a large percentage of earnings and free cash flow, this name has bucked the trend by keeping the share count consistent and allowing for greater flexibility with regard to capital return to shareholders.

Although the tide has fallen steadily over the past few months, investors need not abandon ship, as the

lower share price has led to a much more attractive dividend yield in addition to the discount to tangible book value. Big elephant hunters from south of the border seeking bigger and bigger [prey](#), it may not come as a surprise to many if the company were to become a takeover target. After all, if management continues to hoard the cash that is rightfully belongs to investors, it may not take very long for the kids to ask for the contents of the cookie jar.

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