



## Is This Renewable Utility Too Cheap to Ignore?

### Description

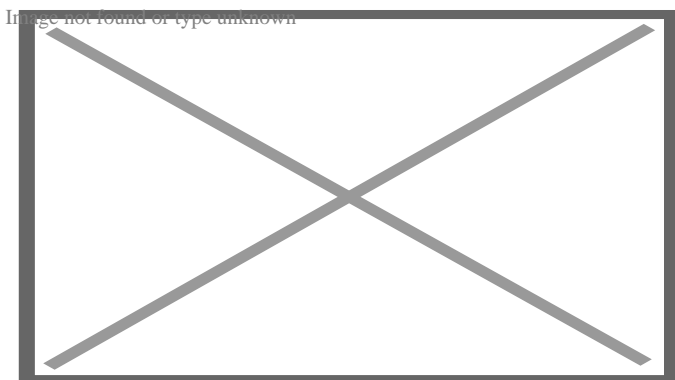
The stock of **TransAlta Renewables Inc.** ([TSX:RNW](#)) has corrected nearly 22% in the last year. Thanks to the lower share price and a dividend hike last summer, the stock now offers a whopping yield of 8.1%.

Is the stock too cheap to ignore? Is TransAlta Renewables's dividend safe?

Before exploring the answers to these questions, let's see if it's the kind of business you would like to own.

### The business

TransAlta Renewables owns and operates power-generation facilities with more than 2,600 megawatts of generation capacity. Its facilities are largely gas-fired or wind, but it also has some hydro facilities. Notably, about half of [the utility's](#) gas-fired generation is in Australia, where it also has some interests in gas pipelines.



### Is TransAlta Renewables's dividend safe?

The payout ratio is the first thing to look at to see if a company's dividend is safe. TransAlta Renewables's recent payout ratio improved from 80% to 74%, while it aims to maintain a payout ratio

of 80-85%.

The lower payout ratio is a good sign, but that's not all. The company's portfolio is also highly contracted with a weighted average contract life of 15 years. So, its profitability is pretty predictable for the long run.

Dividend increases are also a good sign. Indeed, [TransAlta Renewables](#) has increased its dividend every year since 2014. Since its South Hedland generation facility came into service in late July 2017, the company has increased its dividend by 6.8%, as promised.

Management seems focused on growing its cash flow via both developments and acquisitions, which will increase the safety of the dividend and lead to potential future dividend increases.

### **Is TransAlta Renewables too cheap to ignore?**

The stock has corrected nearly 22% in the last 12 months, which might make it look like a bargain. In reality, the stock is now trading near its long-term normal multiple. So, it's fairly valued by looking at its historical trading multiple.

That said, the analyst consensus from **Thomson Reuters** thinks the stock has strong near-term upside potential. The consensus has a 12-month target of \$14.30 per share on the stock, which represents about 23% upside potential. Combined with its sustainable 8.1% yield, that's some high estimated total return of roughly 31% in the next 12 months!

### **Investor takeaway**

TransAlta Renewables's 8.1% yield is high, and it'd be smart of investors to question the dividend's safety. However, the company seems to have the capacity to maintain and even grow its dividend, if management chooses to do so. There's also 23% upside potential to the stock in the next 12 months.

### **CATEGORY**

1. Dividend Stocks
2. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. TSX:RNW (TransAlta Renewables)

### **PARTNER-FEEDS**

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

## Category

1. Dividend Stocks
2. Investing

## Tags

1. Editor's Choice

## Date

2025/08/06

## Date Created

2018/03/01

## Author

kayng

default watermark

default watermark