



A Soaring Stock for Your Value Portfolio

Description

The Canadian equity market has delivered an impressive rally to start 2019, and investors are wondering which stocks might continue to generate strong returns through the rest of the year, and beyond.

Let's take a look at one unloved company that could be an interesting pick for your portfolio right now.

TransAlta ([TSX:TA](#))([NYSE:TAC](#))

TransAlta started the year at \$5.60 per share. At the time of writing, investors are paying \$10 to get a piece of the Alberta-based power generation company.

The rally is a welcome relief for long-term investors who watched TransAlta battle through a multi-year storm that combined falling power prices with high debt levels and uncertainty surrounding the company's future as a power producer in the heart of Canada's energy patch.

Management has done a good job of cleaning up the balance sheet, and a deal with Alberta to assist with the transition from coal to natural gas as a fuel source for generating electricity has removed concerns about TransAlta's role in the province.

The company is receiving more than \$37 million per year to help cover its costs of switching the power stations, and management says TransAlta should hit its target of 100% clean energy production by 2025.

The recent announcement that **Brookfield Renewable Energy Partners** is investing \$750 million in TransAlta is providing a tailwind to the recent rally. The deal is evidence that TransAlta is willing to unlock value in some of the assets. Activist investors are pushing for a better deal, which has the market wondering if a takeover offer might eventually emerge for TransAlta now that it appears to be back on track.

The stock once traded above \$30 per share at writing, so the upside potential is significant. Power

prices improved last year, and the trend could continue amid a recovery in the [oil sector](#).

In addition, Alberta knows it has to provide incentives to power companies to invest in new renewable power projects, and has put a plan in place that will pay power companies for their production capacity as well as the energy they produce. TransAlta has committed to being a major long-term player in Alberta's power market and should benefit from the changes.

Free cash flow is improving, and there is a possibility investors will see a [dividend](#) increase later this year or in 2020. If and when that happens, the stock could catch a new bid, as it would be another signal that the tide has turned for the company.

Should you buy?

TransAlta still has significant value that can be realized, and the market is finally starting to take notice. The stock has already chalked up some nice gains in 2019, and a move back to \$20 wouldn't be a surprise over the next two years.

If you're looking for a buy-and-hold value pick for your portfolio, TransAlta deserves to be on your radar right now.

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