



Is TransAlta (TSX:TA) Stock a Buy Today?

Description

TransAlta ([TSX:TA](#))([NYSE:TAC](#)) jumped 10% in recent trading, and investors are wondering if this could be the start of the larger extended rally in the stock price.

Let's take a look at the electricity producer to see if it deserves to be in your [portfolio](#) today.

Rough road

TransAlta used to be a top pick among dividend investors, but the company ran into a perfect storm of falling power prices, high debt, and aversion to coal-fired electricity generation.

In an effort to preserve cash flow, the company cut the [dividend](#) a number of times, and that led to an extended plunge in the stock price.

How bad?

TransAlta traded for more than \$35 per share in 2008. It eventually bottomed out around \$4 in early 2016 and has gradually improved over the past three years. At the time of writing, the stock trades at \$8.50. It started the year at \$5.60 and went as high as \$10 before giving back gains in the past three months.

Upside

TransAlta has done a good job of reducing debt in the past few years and is making solid progress on its plan to convert its coal plants in Alberta to use natural gas. A deal with the Alberta government provides TransAlta with transition payments of about \$37 million per year through 2030 to help support the changeover and ensure the company maintains its commitment to be a significant investor in the province's power industry.

Changes to Alberta's power-purchasing system will see the province pay producers for capacity as well

as the power they produce, which should be positive over the long haul.

The energy sector is slowly recovering in Alberta, and that should provide demand growth for electricity in the coming years.

Results

TransAlta generated \$49 million in free cash flow in Q2 2019 and says it is on target to hit the upper end of its free cash flow guidance of \$270-330 million for the year.

If the positive trend continues, TransAlta could start increasing the dividend as early as next year.

Value

TransAlta has a market capitalization of \$2.4 billion. Its ownership stake in its subsidiary TransAlta Renewables, if liquidated, would account for the majority of the current market cap, meaning the value of the legacy assets that are still a part of TransAlta might not be fully appreciated.

Should you buy?

TransAlta is on the road to recovery, and while the stock isn't likely to rocket higher, investors should see a slow grind to the upside in the coming years.

The long-term potential is attractive, and the shares appear undervalued today, even after the recent surge in the stock price.

CATEGORY

1. Dividend Stocks
2. Investing
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2. TSX:RNW (TransAlta Renewables)

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