



## Should You Buy TransAlta (TSX:TA) Stock Today?

### Description

Value investors are constantly searching for cheap stocks that might offer a shot at some big long-term gains.

Let's take a look at **TransAlta** ([TSX:TA](#))(NYSE:TA) to see if it deserves to be on your [buy list](#) right now.

### Turnaround

TransAlta used to be a top pick among [dividend investors](#) who relied on its attractive and steady payouts for income. Unfortunately, the company ran into a series of challenges, including high debt, falling power prices, and negative sentiment toward coal-fired electricity production.

As a result, TransAlta was forced to trim the dividend several times and the stock tumbled as investors dumped the shares.

How bad was it?

In 2008, TransAlta traded for more than \$35 per share. The financial crisis knocked it down to \$19 in March 2009, but the negative trend continued in the following years, eventually bottoming out below \$5 in early 2016. Since then, TransAlta has traded as high as \$10.

Debt has come down and a deal with the Alberta government will see TransAlta paid \$37 million per year through 2030 as part of a program to fast-track a transition from coal to natural gas at its facilities.

The stock just bounced 10% to \$8.50 on solid Q3 2019 results and more upside could be on the way in the coming months and through 2020. Total comparable earnings before interest, tax, depreciation, and amortization came in roughly the same as Q3 2018. This was better than expected.

The boost in the stock came as a result of an upward revision to expected free cash flow for 2019. TransAlta initially provided a target of \$270–\$330 million for the year. The new guidance is set at \$300–\$340 million.

Additional good news on free cash flow heading into 2020 could lead to a dividend hike. The current quarterly payout of \$0.04 per share provides a yield of 1.9%.

## Value play

Earlier this year, **Brookfield Renewable Partners** announced a \$750 million investment in TransAlta to boost its position in the company to 9%. The news initially pushed TransAlta's share price to \$10.

The move indicated confidence in the long-term revenue and cash flow outlook for the company's hydro facilities, once Alberta's power purchase arrangements expire in 2020.

Fans of TransAlta say the stock price is too low when the sum of the parts of the company is considered. For example, TransAlta's stake in its subsidiary **TransAlta Renewables** is worth about \$2.2 billion. At the time of writing, TransAlta has a market capitalization of \$2.4 billion, so the market isn't putting much value on the assets that have not been dropped down to the renewable energy firm.

## Should you buy?

The stock appears cheap and good news should be on the way in the coming years. TransAlta is on track to complete its transition away from coal ahead of schedule and the deal put in place with the Alberta government removed uncertainty about the company's future in the province.

TransAlta intends to reduce debt by \$400 million in 2020 and has funds earmarked for share buybacks. The Brookfield Renewable Partners investment should be viewed as a positive for the stock.

Acquisitions in the sector have ramped up in recent months and it wouldn't be a surprise to see TransAlta attract a takeover bid from an existing stakeholder, or a major investment fund.

If you have some cash on the sidelines, TransAlta should be an interesting pick right now for a buy-and-hold portfolio.

### CATEGORY

1. Investing

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1. NYSE:TAC (TransAlta Corporation)
2. TSX:TA (TransAlta Corporation)

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