



## Contrarian Investors: Could TransAlta (TSX:TA) Stock Soar Even Higher in 2020?

### Description

The share price of **TransAlta** ([TSX:TA](#))([NYSE:TAC](#)) is up more than 12% since January 13 and long-term followers of the stock are wondering if this could be the beginning of a new rally to multi-year highs.

Let's take a look at the Canadian power producer to see if it deserves to be on your contrarian [buy list](#) today.

### Tough years

TransAlta was once a favourite pick among income investors. The utility had a solid reputation for paying reliable and generous dividends, but a combination of high debt, weak power prices in Alberta, and negative market sentiment toward coal-fired power production hit the company hard.

In an effort to mitigate the impact on falling revenue and declining cash flow TransAlta cut its dividend from \$0.29 per share to \$0.18. It then slashed the quarterly payout again in 2016 to just \$0.04 per share. Income investors dumped the stock and TransAlta eventually fell from \$37 per share in 2008 to below \$4 in early 2016.

The stock has slowly recovered in the past four years, hitting a high above \$10 in 2019. At the time of writing, TransAlta trades at \$9.70, compared to \$8.60 a couple of weeks ago.

What's driving the stock higher?

On January 16, TransAlta released its 2020 outlook and raised the [dividend](#). The new payout of \$0.0425 per share isn't a massive increase, but it is a move in the right direction and could indicate that the company has finally turned the corner on its dark days.

TransAlta is targeting 2020 free cash flow of \$325 to \$375 million. It will also repay a \$400 million bond that matures this year and has development projects that will go into service, including the Windcharger battery project at its **TransAlta Renewables** subsidiary.

In the next four years, the company is investing \$1.7-1.9 billion in capital projects that should help drive revenue growth.

## Upside

In a deal with Alberta, TransAlta is receiving about \$37 million per year through 2030 to help fund its off-coal program that will transition power production sites from coal-fired to natural-gas fired facilities. Conversions are scheduled for completion by the end of 2023, with the company targeting 100% clean energy generation beyond 2025.

The 2019 investor presentation showed an interesting chart that implies TransAlta's stock price would increase by \$6-9 per share if the company were valued at a multiple that's comparable to merchant U.S. power companies.

Fans of the stock have argued that TransAlta's stock price is very cheap when you consider the value of the TransAlta Renewables assets and TransAlta's Hydro assets.

TransAlta owns about 60% of TransAlta Renewables. At the time of writing, that would value its stake at roughly \$2.6 billion. TransAlta currently has a market capitalization of \$2.7 billion, so you can see why some pundits think the shares are undervalued.

## Should you buy?

TransAlta has reduced debt and is generating improved free cash flow. The dividend increase is a good sign and it wouldn't be a surprise to see the company become the target of a takeover bid.

While the share price might not rocket higher in the next few months, a steady drift to the upside is very possible in the coming years.

Investors with a buy-and-hold strategy might want to add TransAlta to their portfolios while it remains out of favour.

### CATEGORY

1. Dividend Stocks
2. Investing

### TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. TSX:RNW (TransAlta Renewables)

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