



## TransAlta Stock: Should You Buy Now?

### Description

**TransAlta** ([TSX:TA](#))([NYSE:TAC](#)) just reported strong Q3 2021 results and raised its guidance for the full year 2021. The share price soared 5% on the news, and investors are wondering if this is a good time to buy TransAlta stock.

### TransAlta Q3 2021 earnings

TransAlta reported comparable EBITDA of \$381 million in the quarter, up 49% or \$125 million from the same period last year. Funds from operations came in at \$297 million compared to \$193 million in Q3 2020.

Free cash flow jumped from \$106 million to \$189 million. On a per-share basis, free cash flow rose 79% to \$0.70. In the first nine months of 2021, TransAlta generated free cash flow of \$456 million.

The hydro segment, which includes the hydroelectric power facilities, delivered comparable EBITDA of \$82 million, up \$54 million from Q3 2020. The Alberta thermal segment, which includes the coal- and gas-fired power facilities, generated \$104 million of comparable EBITDA — up \$57 million year over year.

Full-year 2021 EBITDA is now expected to be \$1.2 to \$1.3 billion. The midpoint is up 9% from the earlier guidance.

Higher power prices and strong demand drove the positive results. For the first three quarters of the year, the hydro segment averaged \$122 per MWh, while the Alberta thermal group averaged \$94 per MWh. Alberta spot prices averaged \$100 per MWh over the first nine months of the year.

Alberta Power prices are expected to remain high through the end of 2023.

### Balance sheet

TransAlta has slowly rebuilt its balance sheet in recent years. The company finished Q3 with \$1.1 billion in cash and cash equivalents and \$2.3 billion in total liquidity.

Senior corporate debt is down from \$2.6 billion in 2017 to \$1.1 billion at the midpoint of 2021. The growth plan through 2025 is fully funded, so investors shouldn't see any surprises in the next three years.

## Growth

TransAlta has a plan in place to fund \$3 billion in renewable energy projects through 2025. The new assets should drive solid revenue and cash flow expansion to support ongoing dividend increases.

## Dividends

In September, TransAlta announced a dividend increase of 11%. The company is gradually rebuilding the payout after being forced to slash the dividend a few years ago due to high debt and falling power prices.

With EBITDA and free cash flow coming in above expectations, investors should see another decent increase to the payout in 2022.

## Should you buy TransAlta stock now?

TransAlta trades near \$14.50 per share at the time of writing. The stock bottomed out below \$5 in 2016 and is currently up 48% in 2021. Power demand in Alberta should continue to recover, as the rebound in the energy sector drives economic growth.

Despite the strong performance in the share price this year TransAlta still appears undervalued, especially given the strength of the balance sheet and the positive outlook for power prices in the next two years. If you have some cash to put to work, this stock deserves to be on your radar.

It wouldn't be a surprise to see TransAlta hit \$20 by the end of 2022.

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