



# TransAlta Renewables Inc. (TRSWF)

Updated November 11<sup>th</sup>, 2022 by Quinn Mohammed

## Key Metrics

<b>Current Price:</b>	\$10.9	<b>5 Year CAGR Estimate:</b>	8.6%	<b>Market Cap:</b>	\$2.8 B
<b>Fair Value Price:</b>	\$11.0	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	11/14/22
<b>% Fair Value:</b>	99%	<b>5 Year Valuation Multiple Estimate:</b>	0.2%	<b>Dividend Payment Date:</b>	11/30/22
<b>Dividend Yield:</b>	6.6%	<b>5 Year Price Target</b>	\$13	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## Overview & Current Events

TransAlta Renewables trades on the Toronto Stock Exchange (under the ticker RNW) and on the over-the-counter market (under the ticker TRSWF). Its history in renewable power generation goes back more than 100 years. In 2013, the company was spun off from TransAlta (TAC, TSX:TA), which remains a major shareholder in the alternative power generation company. Unless otherwise noted, US\$ is used in this research report.

The company has maintained or increased its dividend in C\$ every year since 2014. Its portfolio consists of about 50 facilities powered by wind, natural gas, hydro, or solar. It generates the majority of cash flow from its natural gas and wind assets.

TransAlta Renewables reported third quarter 2022 results on November 4<sup>th</sup>, 2022. The company generated about the same amount of renewable energy production as the year-ago quarter. During Q3, TransAlta Renewables generated 853 GWh compared to 854 GWh in Q3 2021. Revenue came in higher by 8.8% over the prior year, to C\$124 million.

Adjusted EBITDA decreased by 14% year-over-year and free cash flow decreased by 9% to C\$88 million compared to C\$102 million. Cash available for distribution (CAFD) per share was down 15% to C\$0.17.

The extended facility outage at the Kent Hills 1 and 2 wind facilities weigh on results. The company suffered a tower collapse at the Kent Hills 2 wind site and determined that all 50 turbine foundations at the Kent Hills 1 and 2 wind sites require a full foundation replacement. This rehabilitation will take until the second half of 2023 to be fully complete. The replacement cost previously increased from prior expectations of \$88 million at the mid-point to around \$120 million.

The company reaffirmed its 2022 outlook, anticipated generating 9% year-over-year growth in adjusted EBITDA, to about \$505 million. Cash available for distribution should come in at roughly \$265 million.

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>FCFPS</b>	\$0.94	\$0.86	\$0.92	\$0.95	\$1.05	\$1.00	\$1.11	\$1.13	\$0.99	\$1.05	<b>\$0.88</b>	<b>\$1.02</b>
<b>DPS</b>	\$0.17	\$0.28	\$0.66	\$0.59	\$0.66	\$0.72	\$0.69	\$0.72	\$0.70	\$0.69	<b>\$0.72</b>	<b>\$0.76</b>
<b>Shares<sup>1</sup></b>	114.7	114.7	164.5	223.0	235.0	257.0	275.0	275.0	266.0	267.0	<b>267.0</b>	<b>301.0</b>

TransAlta Renewables' history shows that its earnings-per-share are highly unpredictable due to real asset depreciation. However, it appears to generate stable cash flow that supports its dividend. So, we use the free cash flow per share metric in the table above.

TransAlta's portfolio is reinforced by long contracts as evidenced by its 11-year weighted average contract life. The company has made over C\$3.5 billion of acquisitions since 2013 but the rising share count has prevented its cash flow per share from rising much, especially when the foreign exchange volatility between US\$ and C\$ is accounted for. From 2012 to 2021, its free cash flow per share increased by just 1.2% per year in US\$. Looking ahead, we think that growth will face a headwind from the Kent Hills 1 and 2 wind facilities outage, as the costs of replacement and foregone revenue will impact TransAlta. For now, we estimate a 3% growth rate for the FCFPS through 2027. The company has

<sup>1</sup> In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# TransAlta Renewables Inc. (TRSWF)

Updated November 11<sup>th</sup>, 2022 by Quinn Mohammed

maintained the same monthly dividend (in C\$) since late 2017. However, a dividend increase every few years is a possibility. For now, our estimate uses a 1% dividend growth rate through 2027.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
P/FCF	---	8.8	10.1	8.5	11.3	9.6	7.8	11.9	12.4	15.3	12.4	12.5
Avg. Yld.	---	3.7%	7.1%	7.3%	5.6%	7.5%	8.0%	5.4%	5.7%	4.6%	6.6%	5.9%

The stock's valuation ran up in 2020 and 2021 along with other renewable power stocks. The stock's average multiple was 10.6 from 2013 to 2021. While the coronavirus outbreak certainly wasn't a tailwind for the company, it wasn't much of a headwind either. As a result, we are setting a fair value estimate at 12.5 times FCF, meaning shares trade just below our estimate of fair value now.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	18%	33%	72%	62%	63%	72%	62%	64%	71%	66%	82%	74%

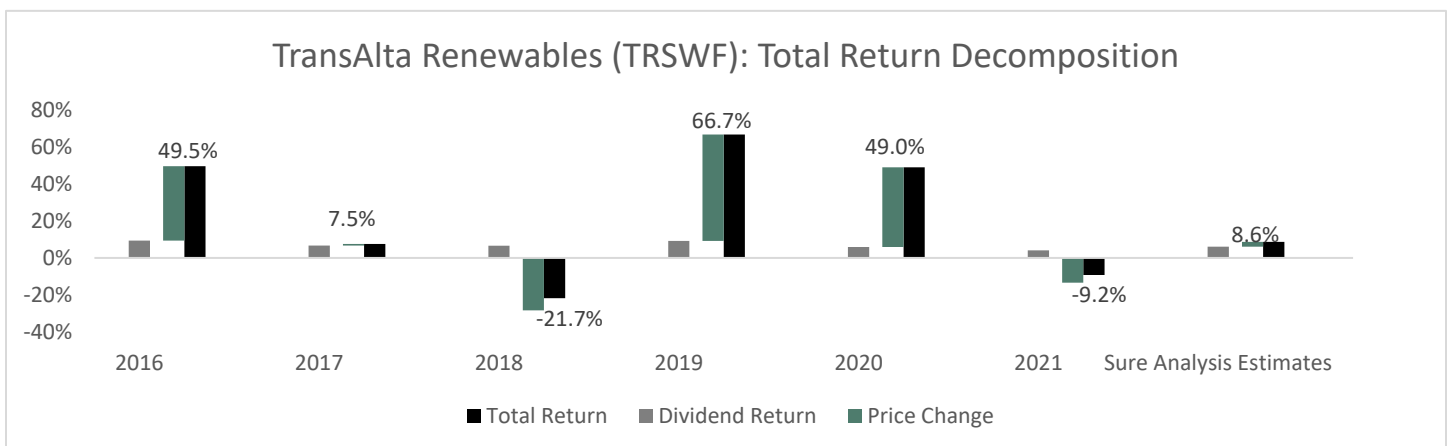
Because dividends are paid from cash flow, we decided to calculate the payout ratio from adjusted funds from operations. Its dividend should continue to be sustained by cash flow and a reasonable payout ratio, but we don't expect it to increase meaningfully.

As the largest wind power generator in Canada, the company may have some competitive advantages, such as being an experienced developer and operator of wind facilities in Alberta. TransAlta Renewables hasn't been through a recession by itself. However, in the last recession, TransAlta stock fell about 50% from peak to trough, which aligned with its earnings per share decline of 46% from 2007 to 2009. That said, investors should note that TransAlta managed to increase its dividend per share by 16% from 2007 to 2009. Seeing that TransAlta Renewables is a slow-growth company, it's likely that its multiple and share price will be dragged down severely in a recession.

## Final Thoughts & Recommendation

TransAlta Renewables is largely an income stock but has little growth based on its history trading on its own. Over the next five years, we estimate annualized total returns of 8.6% for the stock, coming from a current yield of 6.6%, a growth rate of 3.0%, and the potential for a small valuation headwind. We rate the stock as a hold at current prices as there is moderate growth ahead, but we believe the company to be trading with no margin of safety.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# TransAlta Renewables Inc. (TRSWF)

Updated November 11<sup>th</sup>, 2022 by Quinn Mohammed

## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	220	238	211	185	196	354	357	336	325	375
<b>Gross Profit</b>	207	225	200	175	178	279	281	274	268	270
<b>Gross Margin</b>	94.0%	94.4%	94.5%	94.5%	91.1%	78.9%	78.8%	81.4%	82.3%	71.9%
<b>D&amp;A Exp.</b>	74	74	67	59	60	89	94	102	101	120
<b>Operating Profit</b>	85	104	83	74	72	119	112	99	95	69
<b>Operating Margin</b>	38.5%	43.5%	39.4%	39.8%	37.1%	33.6%	31.4%	29.6%	29.1%	18.3%
<b>Net Profit</b>	32	49	44	153	-2	7	182	135	69	112
<b>Net Margin</b>	14.6%	20.5%	20.8%	82.6%	-0.8%	2.0%	51.1%	40.1%	21.1%	29.8%
<b>Free Cash Flow</b>	-49	112	122	141	202	194	248	226	178	203
<b>Income Tax</b>	14	19	12	24	16	29	27	6	19	9

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	2,274	1,891	1,692	2,404	28,44	2,885	2,751	2,834	2,867	2,940
<b>Cash &amp; Equivalents</b>	3	18	20	1	11	16	54	48	456	191
<b>Accounts Receivable</b>	43	35	31	45	65	88	84	69	105	94
<b>Inventories</b>	0	0	4	2	3	5	4	5	5	6
<b>Goodwill &amp; Int. Ass.</b>	114	99	85	66	84	82	91	87	81	72
<b>Total Liabilities</b>	566	889	795	944	1,316	1,138	992	1,063	1,059	1,275
<b>Accounts Payable</b>	37	29	27	10	23	33	35	28	40	64
<b>Long-Term Debt</b>	375	643	567	574	773	829	684	719	678	752
<b>Shareholder's Equity</b>	1,668	965	864	1,433	1,503	1,718	1,729	1,736	1,768	1,627
<b>LTD/E Ratio</b>	0.22	0.67	0.66	0.40	0.51	0.48	0.40	0.41	0.38	0.46

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>		2.3%	2.5%	7.5%	-0.1%	0.2%	6.5%	4.8%	2.4%	3.8%
<b>Return on Equity</b>		3.7%	4.8%	13.3%	-0.1%	0.4%	10.6%	7.8%	3.9%	6.6%
<b>ROIC</b>	114.7	2.6%	2.8%	8.7%	-0.1%	0.3%	7.3%	5.5%	2.8%	4.6%
<b>Shares Out.</b>	114.7	114.7	164.5	223.0	235.0	257.0	275.0	275.0	266.0	267.0
<b>Revenue/Share</b>	-0.43	2.08	1.84	1.12	0.88	1.51	1.39	1.27	1.22	1.40
<b>FCF/Share</b>	114.7	0.97	1.07	0.85	0.90	0.83	0.97	0.86	0.67	0.76

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.