2 Top Dividend Stocks I'd Buy With an Extra $5,000

Description

These days, the "safe" options seem to be few and far between when it comes to generous distributions, but there are still companies out there that offer solid payouts and a chance to pick up some capital appreciation to boot.

Here's why I think dividend investors with bit of extra cash might want to consider putting **Potash Corp./Saskatchewan Inc.** (TSX:POT)(NYSE:POT) and **TransAlta Corporation** (TSX:TA)(NYSE:TAC) on their watchlist.

Potash Corp.

Potash Corp. is operating in a sweet spot right now. The company is just wrapping up a multi-year expansion project that has dividend investors very excited. The switch from development to production means less cash is required for capital projects. At the same time, the increase in production should drive down operating costs per tonne and deliver higher revenues. The end result is a nice boost to free cash flow that can be returned to shareholders in the form of higher dividends and share buybacks.

Global demand for potash hit a record last year and 2015 sales are expected to be flat to marginally higher. Prices are improving, and a major shutdown at Uralkali, the world's largest potash producer, should bode well for Potash Corp.

Potash pays a dividend of US$1.52 per share that yields about 4.1%. The dividend has increased more than 400% in the past three years and investors should see the payouts continue to rise as new production and sales ramp up.

TransAlta Corporation

TransAlta has endured some difficult times over the past few years. Expensive upgrades at its coal facilities and weak power prices in Alberta forced the company to reduce its payout by 38% at the beginning of 2014. The stock fell sharply and continued to slide through most of the year, but it looks like the tide has finally turned.

TransAlta just reported strong Q4 2014 results. Comparable EBITDA came in at $301 million, a 24% increase over Q4 2013. Free cash flow for the quarter was $104 million or $0.38 per share compared to $61 million or $0.23 per share for the same period in 2013.

Moving forward, things look pretty good. The company is making progress on its pipeline and power plant project in Australia and a new maintenance agreement with Alstom will drive efficiency improvements at the Canadian coal operations.

TransAlta also has a strong hedging program in place that should ensure that revenue streams are adequate to support the dividend and capital requirements. Low electricity prices in Alberta will continue in the near term, but the situation is expected to improve significantly over the next 10 years, as legislated power purchase arrangements expire.

Income investors are currently looking at a nice 5.9% yield with the possibility of some significant upside potential for the stock over the next five years.

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1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

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