2 Dividend-Growth Stocks Found in the Bargain Bin

Description

Potash Corp./Saskatchewan Inc. (TSX:POT)(NYSE:POT) and **SNC-Lavalin Group Inc.** (TSX:SNC) are taking it on the chin these days, but the companies have a history of solid dividend growth, and investors are now getting a chance to pick up the stocks at reasonable prices.

Let's take a look at why I think dividend investors should consider adding Potash and SNC-Lavalin to their portfolios.

Potash Corp.

Potash Corp. recently reported 2014 earnings of US$1.82 per share that came in at the upper end of guidance, and the company expects 2015 earnings to be between US$1.90 and US$2.20 per share.

Global potash sales hit a record 61 million tonnes in 2014 and Potash Corp. says projections for 2015 are 58-60 million tonnes.

The solid outlook doesn't seem to square with the latest slide in the stock price.

Potash Corp. has come under pressure recently because analysts are concerned that prices might not increase as much as expected this year.

China is playing hardball in its annual talks to set 2015 contract prices and recently postponed its negotiations with the major suppliers. The market had been expecting a 10% price hike, but that might not materialize. This is going on just as Belarus-based Belaruskali recently said it has increased its year-over-year production by 35% and is aggressively targeting market share in North America.

I think investors should look beyond the short-term distractions and focus on the long-term opportunity.

Potash Corp. is wrapping up a number of multi-year expansion projects and has the flexibility to ramp up production as the market dictates. The company's operating costs per tonne are expected to fall this year and investors should start to see strong free cash flow growth as the expansion sites shift from development to production.

Potash Corp. just increased its dividend by almost 9% to US$1.52 per share. The payout currently yields about 4.6%. Potash Corp.'s 10-year annualized dividend growth rate is 37%. The stock is currently trading at a reasonable 15 times forward earning and 3.1 times book. This compares to the five-year average of 19 time earnings and 4.4 times book.

SNC-Lavalin

The troubles at SNC-Lavalin never seem to go away, despite the best efforts of the company's new management team to move beyond the scandals and focus on rebuilding the company.

The National Division of the Royal Canadian Mounted Police (RCMP) recently laid corruption charges against SNC for its deals in Libya. The news has knocked about 13% off the stock in the past month, as investors worry that the charges will impact SNC's ability to bid on government contracts.

With the stock trading below $38 per share, the potential gains for long-term dividend investors probably outweigh the risks at this point.

The company is still winding down its portfolio of unprofitable legacy projects and that process will continue for another couple of years, but SNC is also building a solid backlog of profitable new contracts.

At the current stock price, some analysts believe the company is trading at the value of its 407 toll road stake. SNC is evaluating options to sell its ownership in the highway, and this would unlock significant cash to deploy into new opportunities.

Despite the distractions, SNC just increased its dividend by 4% to $1.00 per share. The distribution currently yields about 2.6%.

SNC-Lavalin has a 10-year annualized dividend growth rate of 19%. The stock is trading at a very attractive 13 times forward earnings and just 1.7 times book. This is a turnaround bet and long-term investors could see significant share-price appreciation, as the company finally puts the troubles of the past few years behind it.

CATEGORY

1. Dividend Stocks
2. Investing
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1. Editor's Choice

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1. TSX:ATRL (SNC-Lavalin Group)

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