2 Savvy Dividend Picks for Contrarian Investors

Description

The rout in the oil market is not just hitting producers; it's also hammering the valuation of any company connected to the energy sector.

In some stocks, the sell-off is warranted. In others, it could be the case of throwing the baby out with the bath water, and savvy investors should be ready to move when the market really starts to panic.

Here are the reasons why I think contrarian investors should consider putting **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) and **Russel Metals Inc.** (TSX:RUS) on their watch lists.

Teck Resources Ltd.

Teck produces metallurgical coal, copper, and zinc. The market for metallurgical coal has been in the dumps for quite a while, and a recent sell-off in copper and zinc is adding to an already bleak environment.

Teck's management team has done an excellent job of controlling costs through the downturn in the cycle. As a result, the company continues to remain profitable in all three of its core business units. This can't be said for many of its peers, especially in the metallurgical coal business, where massive production cuts are still working their way through the system. The supply/demand imbalances will eventually get sorted out, as they always do in cyclical industries, and when that moment comes, Teck will be in a strong position to reap the rewards.

Teck's stock has also been punished because the company has a 20% ownership position in the Fort Hills oil sands project.

A number of analysts question the wisdom of proceeding with the project, which is scheduled to start production in 2018. Teck is on the hook for about $3 billion to get Fort Hills completed. Low oil prices are actually *good* for Fort Hills at the moment because Teck and its partners can negotiate lower rates with contractors and suppliers.

Weak oil prices are also *great news* for Teck's mining operations. In its latest earnings statement, Teck said that every US$1 drop in the price of oil reduces operating costs by about $5 million.

Teck also benefits from the falling Canadian dollar. The company said that every one-cent drop in the Canadian dollar against its American counterpart translates into $52 million in extra profits.

Teck pays a dividend of $0.90 per share that yields about 5.3%. At this point, the dividend looks safe.

Russel Metals Inc.

Russel is one of the largest metals distribution and processing companies in North America, with three core operating segments: metals service centres, steel distributors, and energy products.

The company's energy division distributes products such as valves and fittings to oil and gas producers. Concerns about falling sales in this segment have hit the shares of Russel quite hard. In fact, Mr. Market has cut more than 30% off the stock price in the last six months. Given the size of the sell-off, I think the energy segment weakness is mostly priced in at this point.

This is certainly a riskier pick than Teck because Russel's energy segment represented about 46% of revenues in 2014, and the company has acknowledged that the rout in the oil patch will hit earnings in the energy group in 2015.

Russel has a solid history of dividend growth. The company currently pays $1.52 per share that yields about 6.3%. The 10-year annualized dividend growth rate is 11%.

Investors won't see an increase to the distribution this year and a cut is possible if the downturn in the oil sector lingers too long.

Preparing for a rebound

Investors should wait for the other shoe to fall in the oil rout before buying these stocks. Once the second wave of panic has washed its way through the energy sector, Teck and Russel could offer contrarian investors significant upside potential to go along with the attractive distributions.

CATEGORY

1. Dividend Stocks
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TICKERS GLOBAL

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