Contrarian Investors: 2 Stocks the Market Hates That You Should Own

Description

Sometimes the herd mentality of the market gives value investors a chance to pick up well-run companies at very attractive prices.

Here are the reasons why I think contrarian investors should consider **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK) and **TransAlta Corporation** (TSX:TA)(NYSE:TAC) for their portfolios.

Teck Resources

Teck produces metallurgical coal, copper, and zinc. If you look at the price charts for these commodities you can see why Teck's stock has been obliterated in the past four years, dropping from $60 to the current price of about $17.50.

Metallurgical, or "steelmaking," coal trades for less than US$120 per tonne right now. At this price, Teck estimates that roughly a third of global producers are unprofitable. Broad-based production cuts by North American suppliers are being partially offset by increased output in Australia. At the same time, weak Chinese demand continues to put pressure on prices, which means a rebound in the market isn't likely until the back half of 2015 or even next year, but it will come.

Copper and zinc prices also fell off a cliff through the end of 2014. Recent strength in both markets suggests the bottom might already be in.

Teck's management team has done a fantastic job of managing costs through the downturn in the cycle. In fact, Teck has remained profitable in all three divisions and the company even increased the dividend by 50%, despite the difficult market conditions.

Commodity prices run in cycles, and it looks like Teck's products are nearing the bottom of the current rout. As a low-cost producer, Teck is well positioned to benefit enormously as prices recover. This means truckloads of free cash flow for investors.

One thing the market seems to be ignoring is the fact that the falling Canadian dollar is helping Teck weather the storm. In fact, the company said every one-cent drop in the Canadian dollar against its

U.S. counterpart results in an annualized earnings gain of $52 million. The Canadian dollar has fallen seven cents since the beginning of the year and most analysts expect further weakness.

Teck pays a dividend of $0.90 that yields about 5%.

TransAlta Corporation

TransAlta is Canada's largest investor-owned generator of wholesale power. The company has a long history of slow and steady growth, but the last couple of years have been tough.

High maintenance expenses at coal facilities and low power prices in Alberta forced TransAlta to cut its dividend in 2014. The stock slid most of last year and bottomed out below $10 per share in the middle of December.

Since then, things are looking a lot better. The company reduced debt by $500 million in 2014 and expects to cut another $300-500 million this year. TransAlta has also signed a maintenance agreement with Alstom for 10 major projects. The work is expected to take three years to complete and should result in direct cost savings of $34 million.

Solid hedging positions should guarantee adequate cash flow to protect the dividend and TransAlta expects to see significant EBITDA gains in the coming years from its $650 million of committed long-term growth projects.

TransAlta pays a dividend of $0.72 that yields about 6%.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)
2. NYSE:TECK (Teck Resources Limited)
3. TSX:TA (TransAlta Corporation)
4. TSX:TECK.B (Teck Resources Limited)

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