Dividend Investors: Two Power Stocks to Generate Growth in Your Income Portfolio

Description

Income investors are always on the lookout for solid stocks that will provide generous dividends and offer a bit of upside potential to boot.

Here are the reasons why I think **Fortis Inc.** (TSX:FTS) and **TransAlta Corporation** (TSX:TA)(NYSE:TAC) are solid picks right now.

Fortis

Fortis flies under the radar of most investors. It isn't based in Calgary or Toronto and the sector it operates in tends to be a bit boring, but ignoring this St. John's-based company could be a big a mistake.

Fortis is Canada's largest investor-owned distribution utility. In fact, it controls a total of $26.6 billion in assets located right across the country, as well as in the U.S. and the Caribbean.

Last year, the company spent $4.5 billion in a deal to acquire Arizona-based UNS Energy. The purchase provides Fortis with a more balanced revenue footprint and will add substantial cash flow beginning this year. Fortis is also wrapping up the expansion of a hydroelectric facility in British Columbia. The company expects the project to add at least $20 million to earnings in 2015. Regulated utilities make up more than 90% of the asset base.

Fortis pays a dividend of $1.36 per year that yields about 3.5%. The company has increased the payout for 42 consecutive years. Shareholders have also enjoyed some nice capital appreciation. In the last five years, the stock has gained more than 40%.

TransAlta Corporation

The combination of expensive upgrades on its coal fleet and low power prices in Alberta forced TransAlta to cut its dividend last year. The stock was already on the slide, but the news sent many of the company's dividend holdouts for the exits and the shares fell below $10 by mid-December.

The market finally realized that management has been working hard to right the ship and the shares are slowly making a recovery. The company reduced debt by $500 million in 2014 and expects to eliminate another $300-500 million this year. TransAlta has a strong hedging program in place and cash flow should be adequate to cover the current distribution.

Recent years have been difficult, but outlook for the company is encouraging. The expiration of legislated power purchase agreements in Alberta should translate into much better cash flow in the coming years. The company has $650 million in committed long-term growth contracts and is expecting EBITDA to improve by $40-60 million per year. In 2017 alone, the company is forecasting a $90 million increase.

TransAlta is still in the process of retiring or converting its legacy coal fleet, but it is also embarking on new projects. One example is its $580 million gas-fired power plant project in Australia.

To fund growth, TransAlta plans to move or "drop down" as much as $3 billion of its contracted assets into its **TransAlta Renewables** subsidiary. This is an efficient way to raise capital for acquisitions or development.

TransAlta pays a dividend of $0.72 that yields about 5.9%.

CATEGORY

1. Dividend Stocks
2. Investing

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1. Editor's Choice

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1. NYSE:TAC (TransAlta Corporation)
2. TSX:FTS (Fortis Inc.)
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