2 Contrarian Dividend Picks I'd Buy With an Extra $5,000

Description

The stock market is loaded with cheap dividend stocks right now, but many of the oversold names come with some serious risks.

Contrarian investors tend to be attracted to the market's walking wounded, but the trick is to separate the ones that should recover from the ones that are headed for the graveyard.

If you have a bit of cash sitting on the sidelines, it might be worth considering **SNC-Lavalin Group Inc.** (TSX:SNC) and **RioCan Real Estate Investment Trust** (TSX:REI.UN).

Here's why.

SNC-Lavalin

SNC-Lavalin has been in the spotlight for all the wrong reasons, and despite ongoing legal and market threats, the stock looks like a bargain when you take a close look at what's going on.

SNC-Lavalin is currently serving a 10-year bidding ban on World Bank projects as a penalty for using unacceptable business practices to secure a bridge project in Bangladesh.

The company is in similar hot water with the Canadian RCMP with regards to deals done in Libya. The RCMP case is still before the courts and SNC-Lavalin could find itself banned from bidding on Canadian work if it loses.

This has caused investors to give the stock a wide berth, but keen observers of the company's recent string of contract wins are betting that the RCMP charges won't result in a worst-case outcome.

Since being formally charged, SNC-Lavalin has won a number of major multi-year contracts in Canada worth billions of dollars.

These include the new Champlain Bridge in Montreal, a transit extension in Toronto, and wind-terminal project in British Columbia, and a contract to manage a division of Atomic Energy of Canada.

This is leading contrarians to believe that SNC-Lavalin is just too important to ban here in Canada.

The company continues to deliver solid results despite its troubles. Earnings for the first half of 2015 were $0.83 per share and full year guidance is set at $1.30-1.60 per share. The company pays a dividend of $1.00 per share, which yields about 2.4%. The dividend has increased every year for the past decade.

RioCan

All the news about a weakening Canadian economy and over-leveraged households has sent investors running for the exits on a number of the Canadian REIT names.

Some of the sell-off might be warranted in the names that rely heavily on corporate clients in the energy space, but RioCan owns retail properties with well-established anchor tenants that can easily ride out a slowdown in the economy.

The majority of the company’s properties are located in Canada, and RioCan is considering the sale of its U.S.-based assets. If that deal goes through the company could use the proceeds to pay down debt or even give investors a special distribution.

RioCan is also experimenting with residential developments on its retail sites. If that project takes off, investors could see a nice boost to funds from operations.

RioCan reported a year-over-year 7% increase in funds from operations in the second quarter. The company also signed up 1.1 million square feet of retail space at an average rent increase of 9.8%. That suggests things are rolling along just fine.

RioCan pays a monthly distribution of 11.75 cents per unit, which yields about 5.4%.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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2. TSX:REI.UN (RioCan Real Estate Investment Trust)

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Date
2025/09/27
Date Created
2015/10/20
Author
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