2 Value Stocks Under $10 I'd Buy With an Extra $10,000

Description

Sometimes investors find themselves with a bit of extra money.

The funds could be from a tax refund, a bonus at work, or a lucky day at the casino. Regardless of the source, there are a number of ways to use the windfall.

Paying off credit cards should be priority number one. Once that is sorted out, the next best option might be to buy some value stocks in your TFSA or RRSP.

Here are the reasons why I think investors with some cash on the sidelines should consider **TransAlta Corporation** (TSX:TA)(NYSE:TAC) and **Kinross Gold Corporation** (TSX:K)(NYSE:KGC).

TransAlta

TransAlta might be Canada's most unloved stock right now.

The company cut its dividend three times in the past three years, and investors have watched the share price plummet from $20 five years ago to $7.

A number of factors have hit the stock.

First, the company is a major electricity producer in Alberta, and power prices have been on the slide as a result of lower demand from the energy industry. To make things worse, a significant part of its operations are coal-fired power plants, and that's not exactly a popular business these days. In fact, the current government in Alberta wants to phase out coal plants by 2030.

The sell-off got to the point where bargain hunters simply couldn't resist, and the stock has risen nearly 100% in the past three months. I think it is still oversold.

Why?

TransAlta has put most of its "pretty" power assets into a subsidiary called **TransAlta Renewables** (TSX:RNW). At the moment, RNW has a market value of $2.9 billion, and TransAlta owns 64% of RNW, so its stake is worth about $1.86 billion.

TransAlta only has a market capitalization of $2.06 billion, so investors are placing very little value on all the non-RNW assets, which include six coal plants, five gas-fired plants, 13 hydroelectric stations in Alberta, and wind facilities in Ontario, Alberta, and Minnesota.

The coal plants contributed $255 million in free EBITDA last year, and the other assets generated combined EBITDA of more than $200 million.

Things are bad in Alberta and in the U.S. Pacific Northwest, where TransAlta has other coal-fired operations, but the company has hedging in place to protect the price it receives on more than 70% of the electricity it will produce through 2019.

Negotiations are also underway with Alberta on a coal-transition agreement. Analysts are throwing around a wide range of possible numbers, but the end result will be a payment to TransAlta for the losses it will incur on an early shut down of its coal operations.

All told, this stock still looks cheap, and investors could get a nice premium on a takeover bid.

Kinross

Kinross was a hated stock until gold prices started their recent rally. The name had fallen from $20 per share in 2009 to $2 in January 2016, but the stock has bounced back to $7, and gold bugs are starting to come out of the woods again.

Kinross has made good progress on cleaning up its balance sheet, and operational improvements continue to bring down production costs. The miner still has a cost structure that is higher than its larger peers, but the recent purchase of strategic assets in Nevada combined with new investment in its beleaguered Tasiast project should help lower all-in-sustaining costs in the next few years.

The easy money has already been made, but the stock is acting like a tightly compressed spring, and Kinross could become a takeover target as the gold sector begins to consolidate.

You have to be a gold bull to take the plunge on this one, but the upside potential remains compelling at the current price.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:KGC (Kinross Gold Corporation)
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4. TSX:RNW (TransAlta Renewables)
5. TSX:TA (TransAlta Corporation)

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