Contrarian Investors: Are 2 Former Dividend Champs Now Value Plays?

Description

Crescent Point Energy Corp. (TSX:CPG)(NYSE:CPG) and **TransAlta Corporation** (TSX:TA)(NYSE:TAC) used to be favourites among dividend fans.

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Today the stocks are more likely to be picked up by value investors. Let's take a look at why it might be time to start kicking the tires on these two stocks.

Crescent Point

Crescent Point used to be the go-to name for dividend investors who wanted big yield in the oil sector. The stock was widely viewed as a safe bet in the energy space because it had maintained its payout through the Great Recession and resisted a cut through the first leg of the recent crash.

Unfortunately, the hedging positions began to run out, and Crescent Point was forced to slash its monthly payout from $0.23 per share to $0.03.

Dividend investors have moved on, but value seekers are starting to get excited.

Crescent Point has done a good job of managing costs through the downturn. The company can now live within its cash flow if WTI oil is US$35 or better, and a 40% year-over-year cut in capex is having a limited impact on production.

In fact, daily output in 2016 is expected to be slightly better than last year.

As a result, Crescent Point is setting up to generate some decent margins if oil can muster further gains.

The company says it could deliver $600 million in free cash flow in 2017 if WTI trades above US$55. That's not a far stretch from current prices, and the free cash flow bonanza could be much bigger if oil pushes even higher.

At this point, that potential isn't priced into the stock.

Crescent Point owns some of the best assets in the patch and has identified more than 7,500 drill sites that could boost reserves in the coming years.

If you are an oil bull, Crescent Point should be on your radar.

TransAlta

TransAlta used to be a stable holding for Canadian dividend investors, but a perfect storm hit the company in recent years, and that has led to a nasty slide in the stock accompanied by a series of dividend cuts.

The quarterly payout once stood at $0.29 per share. Today the distribution is just $0.04.

Much of TransAlta's revenue comes from selling electricity generated by its coal–fired plants located in Alberta.

The current provincial government plans to fast-track the shutdown of coal facilities and is implementing new carbon emissions taxes. On top of this, the spot price for electricity has plummeted, so you get a situation that most investors don't want to touch with a 10-foot pole.

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This is where value investors get excited.

When you dig through all the mess, TransAlta looks very cheap. The company is doing a good job of lowering debt and continues to make money. Free cash flow for Q1 2016 came in at a decent $86 million, or $0.30 per share. On an annualized basis, that's $1.20 per share, which is pretty sweet for a stock that only trades for $6.60.

TransAlta owns 64% of **TransAlta Renewables** (RNW), which holds most of the green-energy assets.

At the time of writing, TransAlta's market capitalization is lower than the value of its RNW position, so the market is allocating no value to the assets that aren't a part of RNW. These include six coal plants, five gas-fired plants, 13 hydroelectic stations in Alberta, and wind facilities in Minnesota, Ontario, and Alberta.

The coal facilities alone contributed $255 million in free EBITDA last year, and the other assets chipped in a combined EBITDA of more than $200 million. TransAlta has hedging positions in place to protect the price it gets on 70% of its electricity production through 2019.

Something isn't right here, and I think TransAlta will eventually be bought out. If that happens, investors could see nice windfall.

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