



Should Dividend Investors Go Dumpster Diving for Better Opportunities?

Description

Most people reading this wouldn't be caught dead taking things from a dumpster, even if the items were perfectly fine.

This is primarily a pride thing. We work hard and make smart decisions, so we don't have to jump into a smelly garbage bin to get a few items that may or may not still be good for free. Homeless people jump into dumpsters; regular people don't.

But at the same time, the people who choose to wade into dumpsters could be on to something. Waste is a real problem in our society. I used to work at a grocery store that made every effort to minimize waste, yet the amount of perfectly good food that ended up in our dumpster was staggering. Stores that strictly deal in non-perishables are just as guilty.

A smart dumpster diver can create a lucrative business by flipping one person's trash for profit, or even just cut down on their grocery bill.

I'm not trying to convince anyone to actually dumpster dive. I know that's a very tough sell. But at the same time, I think investors could borrow a few of the same principles to make their own investments more successful.

One man's trash...

Sometimes, when investors hate a company enough, it'll sell at an unexplainable discount.

Take **TransAlta Corporation** ([TSX:TA](#))([NYSE:TAC](#)) as an example. The company's troubles have been well documented. It suffered from costly unexpected repairs to its fleet of power plants. The selling price for electricity in Alberta plummeted. Earnings were weak and debt was high, so management was forced to cut the dividend. Twice.

And finally, the worst blow of all. Alberta, the company's home province and main operating area, announced it was going to go coal-power free by 2030. Some 45% of TransAlta's earnings come from coal-fired power in Alberta.

Knowing all of this, it's easy to see why TransAlta shares are down 73% in the past five years.

There is one piece of information that makes TransAlta an interesting investment, however. Most investors are too focused on the negatives that they choose to ignore it.

TransAlta is the majority shareholder of **TransAlta Renewables Inc.** ([TSX:RNW](#)) with a 64% stake in the drop-down company. The current market cap of Renewables is \$3.23 billion, which makes TransAlta's ownership stake worth approximately \$2.07 billion.

And yet, TransAlta has a market cap of \$1.69 billion. Essentially, investors are getting paid \$400 million to take on the risk of owning TransAlta's toxic assets, while getting all of Renewables for free.

And remember, TransAlta is actually generating free cash flow. Throughout the first six months of 2016, the company generated \$170 million in free cash flow. That puts it on pace to trade at less than five times that metric for all of 2016—enough to easily pay the 2.8% dividend.

Another example

Alaris Royalty Corp. (TSX:AD) is flirting with a 52-week low after bad news came out about KMH, one of its partners. Management wrote off some of the company's exposure to KMH after it was revealed the company stopped paying royalties.

But things aren't nearly as bad as the market thinks. Alaris should still have enough in earnings to pay shareholders the generous 7.3% dividend, and management is currently working out a deal with KMH that should get most of Alaris's original capital back.

In the meantime, Alaris has 15 other royalty deals that are returning between 10% and 15% annually with many having inflation protection built in. Additionally, the royalty business is an easy one to scale, assuming opportunities exist. Management has proven they are adept at finding deals and increasing shareholder value, so it's likely today's low price is just a temporary phenomenon.

Conclusion

Finding cheap value stocks with potential upside is a lot like dumpster diving. It requires patience, getting a little uncomfortable, and maybe getting your hands dirty, but investors can make a lot of money buying the cheapest stocks in the market.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TAC (TransAlta Corporation)

2. TSX:AD.UN (Alaris Equity Partners Income Trust)
3. TSX:RNW (TransAlta Renewables)
4. TSX:TA (TransAlta Corporation)

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