2 Undervalued Stocks That Could Double Their Dividends in 2017

Description

Dividend investors are always searching for companies that have strong track records of dividend growth, but beaten-up names that could be on the verge of a dividend rebound are also worth watching.

Let' s take a look at **TransAlta Corporation** (TSX:TA)(NYSE:TAC) and **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) to see why they should be on your radar.

TransAlta

TransAlta used to be a top pick among dividend investors, but the company ran into some troubles in recent years and was forced to slash the payout.

What happened?

High debt, low electricity prices, and opposition to coal-fired power production formed a perfect storm against TransAlta, creating a situation where management had to make some drastic moves to survive the rout.

TransAlta's quarterly dividend dropped from $0.29 per share in 2013 to $0.18 per share in 2014, and then to $0.04 per share last year, where it currently stands.

As you might imagine, the share price followed it down from $20 five years ago to below $4 in January 2016.

Since then, the stock has recovered to $8, and new developments in Alberta could signal a new uptick in the dividend payout.

Is it in recovery mode?

Alberta recently announced its strategy to move away from coal-fired power production.

The province has agreed to pay producers a fee to shut down or transition existing plants to natural gas by 2030. In TransAlta's case, Alberta will pay $37.4 million per year from 2017 to 2030 to help the company speed up the transition process.

TransAlta now expects to have its coal-to-natural gas conversions completed in 2023.

In addition, Alberta is changing its power market to pay producers for the capacity they have as well as the electricity they produce. The idea is to provide incentives to invest in new renewable-energy facilities to replace capacity lost through the retirement of some coal plants.

TransAlta has committed to remain major player in the Alberta power market and plans invest in new projects.

The management team is making good progress on its debt-reduction efforts, and Alberta's oil sector appears to be on the mend, so better times should be on the horizon.

As a result, dividend growth might be in the cards. It could take several years to get back to $0.29 per share, but a double back to $0.08 is reasonable in the near term — possibly by the end of 2017.

The current dividend payment provides a yield of 2%.

Crescent Point

Crescent Point is also a fallen dividend star.

The company's payout survived the oil crash of the Great Recession, and many investors thought Crescent Point would be able to maintain the distribution when the current downturn first started in 2014.

That wasn't to be the case.

The severity and duration of the oil rout forced Crescent Point to cut the monthly dividend from $0.23 to $0.10 in 2015, and then to $0.03 last year.

Have we seen the bottom?

Oil has since recovered to the point where Crescent Point is comfortable increasing its capital expenditures, which should drive production up 10% in 2017.

If WTI prices can hold their current gains, of even extend them through the year, Crescent Point should start generating some decent free cash flow, and that could lead to an increase in the distribution.

As with TransAlta, investors shouldn't expect a rapid return to the dividend glory days, but a bump up to $0.06 per share is definitely possible by the end of the year if oil continues to recover.

The dividend current yields 2.2%.

The bottom line

Both stocks are contrarian picks, and investors should expect some additional volatility.

However, the existing payouts now look safe, and significant dividend growth could be on the way in the coming years.

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