Value Investors: 2 Stocks to Consider in an Expensive Market

Description

Contrarian investors are searching for beaten-up stocks that might offer some attractive upside in the coming year.

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 might be interesting picks.

TransAlta

TransAlta was a $19 stock with a quarterly dividend of $0.29 per share just five years ago.

Unfortunately, a perfect storm of high debt, low power prices, and an opposition to coal-fired electricity generation hit the company all at once, and investors watched in horror as the shares slid below $4 and the dividend dropped to four cents.

The stock price has since doubled off the low, and more gains could be on the way.

Why?

Management is doing a decent job of paying down debt, and a new agreement with Alberta should clear up any concerns about TransAlta's future in the province.

Alberta will pay TransAlta more than $37 million per year through 2030 to transition from coal to natural gas. As part of the agreement, TransAlta has committed to remain a key player in Alberta's power sector.

Alberta is also changing its power system to a set-up where the province pays producers for their capacity, as well as the power they generate. This should help motivate companies to invest in new facilities to offset capacity lost to the closure of some coal plants.

TransAlta currently has a market capitalization of $2.25 billion, which is pretty close to the value of its holdings in **TransAlta Renewables** (TSX:RNW), so there might be an opportunity for investors to snag a nice takeover premium if a suitor steps in and decides to unlock some value.

Power prices are not expected to improve much in the near term, but patient investors should eventually do well with this stock. The existing dividend offers a 2% yield while you wait for better days.

Crescent Point

Crescent Point currently trades at $14.50 per share, and WTI oil is above US$50 per barrel. A year ago, Crescent Point was $18 per share, and oil was US$45, so something appears to be out of whack.

Either the stock was overvalued last year, or Crescent Point is getting oversold. When we look at the production outlook, the oversold theme is more believable.

Why?

Crescent Point expects to end 2017 with daily production rates that are at least 10% above the 2016 level.

On top of this, the balance sheet remains in decent shape, and Crescent Point has adequate liquidity to ride out further weakness or acquire new assets.

If you think oil is headed higher in the medium term, Crescent Point should be on your radar.

The current dividend offers a yield of 2.5%.

Is one more attractive?

Both stocks offer solid upside potential from their current levels.

If you think oil is ready for a rebound, Crescent Point could deliver big gains in a short period of time. Otherwise, TransAlta looks like a good pick to tuck away for the next 10 years.

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