2 Oversold Dividend Stocks Yielding 7%

Description

Once in a while, the market serves up a few stocks with big yields and a shot at some impressive capital gains.

Let's take a look at **Inter Pipeline Ltd.** (TSX:IPL) and **Altagas Ltd.** (TSX:ALA) to see if they are attractive picks today.

IPL

IPL owns natural gas liquids (NGL) extraction assets, conventional oil pipelines, oil sands pipelines, and a liquids storage business in Europe.

The balanced revenue stream has helped the company navigate the oil rout in pretty good shape. In fact, IPL has raised its dividend in each of the past three years.

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Management has taken advantage of the downturn to add strategic assets at attractive prices, including the $1.35 billion purchase of two NGL extraction facilities and related infrastructure from The Williams Companies.

IPL bought the assets at a significant discount to their construction costs, so IPL could see some nice returns on the investments when the market recovers.

In addition, the company has $3 billion in development projects under consideration, which could provide a nice boost to cash flow by 2020.

IPL reported a Q2 2017 payout ratio of 72.9%, so there is an adequate buffer to support the dividend. At the time of writing, the monthly payout of $0.135 per share provides a yield of 7.1%.

Altagas

Altagas owns gas, power, and utility assets in Canada and the United States.

The company is growing through organic projects and a large acquisition.

On the West Coast, the company is expanding its Townsend gas processing facilities and building a propane export terminal in British Columbia. South of the border, Altagas is in the process of buying Washington D.C.-based WGL Holdings for $8.4 billion.

Investors have not reacted well to the WGL deal, and the stock has fallen as a result. Altagas is trying to sell two gas-fired power plants in California to cover part of the cost of the WGL purchase. Once that process is complete, funds might start to move back into the stock.

Altagas says it expects to boost the dividend by at least 8% per year from 2019 to 2021 once the WGL deal closes, and management is targeting a payout ratio of 50-60% of normalized funds from operations through that time frame.

The company reported record normalized EBITDA of $166 million, which was 8% higher than the same period last year. Despite the solid results, the stock is still under pressure.

As a result, the monthly dividend of $0.175 per share currently provides a yield of 7.6%.

The bottom line

Both stocks look oversold at this point in time. If you have some cash sitting on the sidelines, it might be worthwhile to start a contrarian position and pick up some nice income while you wait for better days.

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Date
2025/08/19
Date Created
2017/09/19
Author
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