Contrarian Investors: 2 Attractive Canadian Stocks Trading Below $10

Description

Contrarian investors are always searching for opportunities to pick up cheap stocks that might offer strong upside potential.

Let’s take a look at two beaten-up names that could be attractive today.

TransAlta Corporation (TSX:TA)(NYSE:TAC)

High debt, falling power prices, and negative sentiment towards coal plants have taken a toll on TransAlta’s balance sheet and the company’s stock price.

Management cut the dividend a number of times in recent years, and investors bailed out of the stock, sending it from $20 per share in early 2012 to below $4 at the beginning of 2016.

Investors who had the courage to get in at the bottom are sitting on some nice gains, as the stock now trades above $7 per share, and more upside could be on the way.

Why?

TransAlta is addressing the debt issue, and a deal with Alberta last year clears up most of the concerns about the company’s future in the province. Alberta will pay TransAlta a transition fee of about $37 million each year through 2030 to help the company move away from coal-fired power production.

In addition, the province is changing the way it pays power producers, switching to a system where payments will be made for capacity as well as for the power that is produced.

This should provide incentives for investment in renewable power projects to replace coal-fired capacity that will not be switched to natural gas.

At the time of writing, TransAlta has a market capitalization of $2.1 billion, yet its stake in **TransAlta Renewables Inc.** (TSX:RNW) is worth $2.2 billion, based on the 64% ownership the company says it has in the subsidiary.

So, an investor who buys TransAlta today pretty much gets the RNW assets as a bonus.

Kinross Gold Corporation (TSX:K)(NYSE:KGC)

Kinross trades for $5.30 per share as I write this article, but it was a $20 stock back in 2009.

An ill-timed acquisition and falling gold prices hammered the stock in recent years, and management had to work hard to clean up the balance sheet and keep the company alive.

With debt under control and gold prices improving, Kinross has started to re-focus on growth.

One project to watch is the company’s expansion of its Tasiast mine in Mauritania. The new investment should result in a significant boost in production and reduced all-in sustaining costs (AISC).

If gold can continue to drift higher and Tasiast finally delivers on its potential, Kinross investors could see some long-awaited relief.

More work has to be done on the cost side, but contrarian investors might want to start nibbling while Kinross remains out of favour.

The bottom line

Both stocks have contrarian appeal. Which one you buy depends on your investing style.

TransAlta isn’t going to shoot the lights out in the coming months, but it should grind higher in the coming years. The existing dividend looks safe and provides a yield of 2%.

Kinross has the potential to deliver big gains in a short period of time, but the company’s fortunes are linked to the price of gold, which continues to be volatile. As such, you have to be a fan of the yellow metal to buy the stock.

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