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Contrarian Investors: 2 Oversold Dividend Stocks to Put on Your Radar

Description

Contrarian investors are always searching for troubled stocks that could be on the cusp of a recovery.

Let's take a look at two companies with rising dividends that are currently out of favour with investors.

Altagas Ltd. (TSX:ALA)

Altagas owns power, gas, and utility businesses in Canada and the United States. The company has grown over the years through strategic acquisitions and organic development, and that trend continues.

Altagas completed two projects near the end of 2017 and is making good progress on its Ridley Island propane-export terminal. In addition, the company is working its way through an $8.4 billion acquisition of Washington D.C.-based WGL Holdings.

The market senses that Altagas is biting off a bit more than it can chew, and that's part of the reason the stock is down so much over the past year. This is in combination with a general pullback in the broader energy infrastructure and utility sectors.

The company raised the dividend by about 4% last fall and is targeting annual distribution hikes of at least 8% for 2019-2021 once the WGL deal closes.

At the time of writing, the stock provides a yield of 9%.

Inter Pipeline Ltd. (TSX:IPL)

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

The company made it through the oil rout in pretty good shape, and management even took advantage of the downturn to pick up some strategic assets at attractive prices, including the $1.35 billion deal for two NGL extraction facilities and related infrastructure from The Williams Companies.

In addition, IPL recently gave the green light to its $3.5 billion Heartland Petrochemical Complex, which should be completed by the end of 2021. The facility is expected to generate EBITDA of $450-500 million per year.

IPL bumped up its dividend in the fall, and while big hikes might not be in the cards in the next couple of years, the revenue and cash flow growth outlook is attractive over the medium term once the Heartland project is completed.

IPL's 2017 payout ratio was 62%, so the distribution should be safe. At the time of writing, the stock provides a yield of 7.4%.

Is one a better bet?

Both stocks have pulled back to the point where they look oversold. The current revenue and cash flow should be adequate to support the existing distributions, and the new assets coming online give investors a reason to wait for better days.

At this point, I would probably split a new investment between the two companies.

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