2 Canadian Income Stocks That Look Oversold

Description

Retirees and other income investors are primarily searching for reliable and growing dividends, but it's always nice to have a shot at some upside gains in the stock price as well.

Let's take a look at two unloved stocks that offer above-average yield and rising payouts.

Hydro One (TSX:H)

Turmoil in the wake of the election in Ontario has resulted in a drop in Hydro One's stock price, as investors sit back and wait to see who will run the company after the entire board of directors and CEO resigned in July. Ontario owns about 47% of Hydro One.

One concern is the fate of the ongoing US$3.4 billion acquisition of Washington-based Avista Corp., which would add operations in the States of Washington, Idaho, Oregon, and Alaska. If the deal closes, the combined company will be a top 20 investor-owned utility in North America.

Delays in the process are expected due to the leadership changes at Hydro One, but the purchase will likely go through, which should put a tailwind behind the stock.

The interim management team continues to stay the course on the company's acquisition strategy. Hydro One just announced an agreement to buy Peterborough Distribution from the City of Peterborough for $105 million.

At the time of writing, investors can pick up a 4.8% yield with a solid dividend-growth outlook. Hydro One raised the payout by 5% in May and plans to grow the rate base by 5% per year through 2022, which should support ongoing dividend hikes. The company has a target payout ratio of 70-80% of net income.

AltaGas (TSX:ALA)

AltaGas recently closed its $9 billion acquisition of Washington D.C.-based WGL Holdings. The deal created a power, gas, and utility company with operations in more than 30 states and provinces. AltaGas anticipates 80% of 2019 EBITDA will come from the regulated gas utilities, providing predictable and reliable cash flow.

AltaGas has $6 billion in growth opportunities and expects to boost the utility rate base from $5 billion to $7 billion by the end of 2021. This should underpin dividend growth in the coming years.

The company's CEO recently resigned due to a complaint to the board, and that comes as investors are waiting to see how the company will monetize non-core assets to pay down a US$2.3 billion bridge loan. The balance sheet concerns are the primary reason the stock has been under pressure.

Investors who buy today can pick up an attractive distribution while they wait for the smoke to clear on the management changes and the assets sales. The monthly dividend increased last fall to $0.1825 per share, which is good for an annualized yield of 8.6%.

The bottom line

Hydro One and AltaGas are contrarian picks today, but the dividends should be safe, and investors have an opportunity to score some nice capital gains when the uncertainties at both companies are sorted out.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:ALA (AltaGas Ltd.)
2. TSX:H (Hydro One Limited)

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