



Contrarian Investors: This Dividend Stock Is on Sale Now

Description

Here are two [dividend-paying](#) utility stocks that have seen big weakness and are on sale today. They are worth a look, especially if you're a contrarian investor looking for those bargain prices.

The long-awaited dividend cut and credit rating downgrade have finally come, leaving investors to question what the future holds for **AltaGas Ltd.** ([TSX:ALA](#)). Is it finally time to buy the stock?

Now that the dividend and the stock price has effectively been reset, let's review the pros and cons:

Pros

Altagas Ltd. stock has a dividend yield of over 6%, and the payout ratio next year will be approximately 50%. It also has a focus on gas midstream, and regulated gas utilities should drive solid cash flow growth, as the company focuses on achieving synergies from the WGL acquisition and WGL's high quality assets and market position brings Altagas many growth opportunities and accretion.

The recent approval of [LNG Canada's](#) project bodes well for Altagas stock, both in terms of market sentiment and in terms of actual volumes that will ultimately come through AltaGas Montney facilities. The company also has a diversified infrastructure platform of high-quality assets, much of it under long-term contracts.

Cons

The last few years have been anything but confidence-inspiring, with the company taking on extreme leverage in order to fund the WGL acquisition, cutting its dividend by a whopping 56%, and receiving a credit downgrade to BBB-, negative outlook. Notably, this is still investment grade. The execution risk related to the company's proposed asset sales (another \$1.5 to \$2 billion in asset sales planned) and with regard to its new focus on midstream and U.S. utilities.

TransAlta Corp. ([TSX:TA](#))

TransAlta Corporation has also been having a rough time, falling more than 60% in the last five years

to today's level of just over \$6.00.

In 2015, TransAlta was reporting big losses in its coal and energy trading businesses, was removed from the **S&P/TSX 60 Index**, was found guilty and fined \$50 million in the market manipulation case against it, and was forced to cut its dividend substantially.

To top it all off, the company was downgraded by Moody's to non-investment grade in that same year.

Where are we now?

Coal still represents more than 40% of the company's EBITDA, which is down significantly from a few years ago, but still big.

Although Alberta power pricing is staging a comeback, this big weighting in coal is one that sours TransAlta for the long term, as it is not a long-term growth sector, so there is still a lot of uncertainty.

With a dividend yield of a mere 2.54%, investors get little support there either.

Final thoughts

Market sentiment around AltaGas stock is very negative, but this is par for the course for contrarian investors. The company still has valuable assets and has room for growth if management executes correctly.

While TransAlta is also experiencing very negative sentiment amidst its troubles, this stock does not have as bright or secure a future. Being heavily invested in coal, a dying industry, the stock has a bleak future.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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1. NYSE:TAC (TransAlta Corporation)
2. TSX:ALA (AltaGas Ltd.)
3. TSX:TA (TransAlta Corporation)

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