

Value Investors: These 3 Dividend Payers Could Rise 50% (or More!) in 2019

Description

Deep value investing is definitely a tricky hobby, but it can be incredibly lucrative.

On the surface it seems pretty simple. Investors must conquer their most basic instincts and buy shares of seemingly crummy companies that appear destined to become relics of yesteryear. These shares are so cheaply priced that even the smallest bits of good news can send them much higher.

This isn't a long-term game, either. You'll want to punt your shares after making a decent profit. Ideally this happens in just a few months, but sometimes it can take years. Holding when the majority of other investors are calling you crazy can be tough on anyone. It turns out Tom Petty was right; the waiting really is the hardest part.

The rewards for all of this can be incredibly enticing. These three stocks have minimum upside potential of 50% in 2019. Gains of 75%... 100%... or even 200% are possible. Let's take a closer look.

Corus Entertainment

2018 might go down as the worst year in the history of **Corus Entertainment Inc.** ([TSX:CJR.B](#)). The owner of Canadian television channels saw shares sink to an all-time low after it announced a massive 78% dividend cut.

In a world where our eyeballs are increasingly glued to the internet and streaming video, it's easy to be bearish on traditional television. But Corus has a lot of qualities that should attract a deep value investor. It's a free cash flow machine, generating \$349 million worth in its recently ended fiscal 2018. To put that into perspective, the stock has a \$1.1 billion market cap. Its price-to-free cash flow ratio is one of the cheapest in the whole market.

And remember, the stock still pays a 4.5% dividend, a payout well covered by free cash flow.

Over the longer-term Corus must get its debt under control. It owes creditors some \$2 billion. The dividend cut will help, but more needs to be done. The stock is so cheap even small steps taken could have a big impact on the share price.

TransAlta

TransAlta Corporation ([TSX:TA](#))([NYSE:TAC](#)) is in the middle of a transformation from coal-fired power producer to something a little more environmentally friendly. The company's bloated balance sheet isn't making the journey any easier, although management is slowly improving that.

The company is cheap on a couple of different metrics. It owns a 61% stake in TransAlta Renewables, an ownership position worth \$1.7 billion. TransAlta's current market cap is \$1.7 billion. This means investors are getting the rest of TransAlta's assets for free.

Shares are also cheap on a price-to-free cash flow basis. In just the first three quarters of 2018, the company generated \$426 million in free cash flow. Even if fourth quarter results are weak and free cash flow only hits \$500 million for the year, TransAlta would still be incredibly cheap on that basis.

TransAlta shares also pay a small dividend. The current yield is 2.6%.

Transcontinental

Transcontinental Inc. ([TSX:TCL.A](#)) is doing something about its reputation. The printer of newspapers and flyers is expanding into more specialty packaging niches, supplying things like dog food bags, beverage shrink film labels, and milk cartons. Thanks to a transformational acquisition in 2018, the company can now say printing is no longer the majority of its business.

2018's annual results took a bit of a hit because of the big acquisition, but results were still solid. Earnings per share hit \$2.58, giving the stock a P/E ratio of just 7.7. The forward P/E ratio is even lower, it currently stands at 7.2.

Shares currently sit just under \$20 each, and a return to \$30 could easily be in the cards sometime in 2019. The stock price was that high as recently as September.

Transcontinental might be more than just a short-term trade, though. The company has many attributes that appeal to long-term owners including high insider ownership and one of the best dividend-growth records out there. Transcontinental has hiked its payout each year since 2001. The quarterly payout has grown from \$0.04 per share then to \$0.21 today. Shares currently yield 4.3%.

The bottom line

Deep value investing isn't for the faint of heart. Each of these stocks could head lower in 2019 if additional bad news surfaces. It's a risk inherent with the space.

But at the same time, these stocks don't have much further to drop. They've all been hit hard with bad news. Just a small uptick in sentiment could send all three higher in a hurry.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:TAC (TransAlta Corporation)
2. TSX:CJR.B (Corus Entertainment Inc.)
3. TSX:TA (TransAlta Corporation)
4. TSX:TCL.A (Transcontinental Inc.)

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