2 Cheap Stocks for TFSA Income Investors

Description

Once in a while the market gives investors a chance to pick up quality dividend stocks at great prices.

Let's take a look at two companies that are currently out of favour but pay attractive dividends and could provide some big upside in the share price over the next two years.

IPL

Inter Pipeline (TSX:IPL) operates in the midstream segment of the Canadian energy sector. The company owns conventional oil pipelines, oil sands pipelines, and natural gas liquids (NGL) processing facilities. In Europe, IPL owns bulk liquids storage sites in a number of countries.

Growth occurs through a combination of strategic acquisitions and organic projects. IPL is currently building a $3.5 billion polypropylene plant that will turn propane into plastic that is used by manufacturers.

The Heartland Petrochemical Complex, as it is known, is expected to begin operation in late 2021 and should generate additional annual EBITDA of at least $450 million. Once the facility is at capacity, investors could see a nice increase in the dividend.

The board held the monthly dividend steady at $0.1425 per share through 2019, but raised it in each of the previous 10 years. At the time of writing, investors who buy the stock can pick up a yield of 7.7%.

The stock trades at $22 at writing compared to $33 five years ago. Pundits suggest the market is concerned IPL will have to take on too much debt to complete the Heartland project. The company said that it's exploring the potential sale of its European assets to help cover the capital requirements. If a deal is announced, the stock could move higher.

In August, IPL confirmed it had rejected a takeover bid that one media outlet reported to be at $30 per share. If buy out interest ramps up and another offer comes forward, investors could see some nice gains.

In the meantime, you get paid well to wait for better days.

Russel Metals

Russel Metals (TSX:RUS) is one of North America's largest metals distributors with metals service centres, steel distributors, and an energy products division.

The company has grown over the years through strategic acquisitions — a trend that's expected to continue as the industry consolidates.

The sector undergoes cycles and global trade battles, tariffs, and fluctuating currency prices can all have an impact on the business. That said, Russel Metals does a good job of navigating through the complexities and takes advantage of its diverse business lines located across Canada and throughout the United States to mitigate the negative forces.

Earnings for Q3 2019 came in below the same period last year, and ongoing uncertainty in trade disputes could result in additional tough quarters in the near term. The dividend, however, should be safe.

The stock trades at $22 per share at writing, compared to the 2018 high above $30, so there is good upside potential on a rebound in the sector.

Investors who buy today can pick up a dividend yield of 6.7%.

The bottom line

IPL and Russel Metals appear cheap today and could deliver some big upside when market conditions improve. Investors who split a new investment between the two stocks can pick up an average yield of 7.2%.

If you have a contrarian investing style, these stocks deserve to be on your radar for a TFSA income portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:RUS (Russel Metals)

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1. Business Insider
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