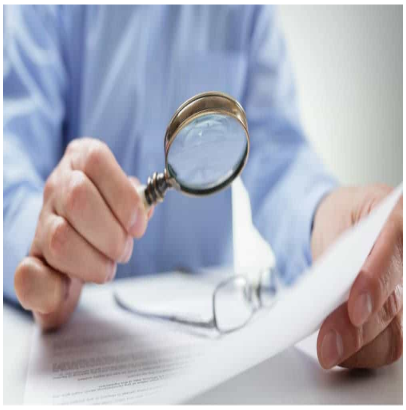

Savvy Investors: 2 Cheap Stocks to Watch in 2020

Description

Contrarian investors are constantly searching for unloved stocks that could generate big returns when market sentiment improves.

The rally in the TSX Index in 2019 makes the contrarian pickings rather slim, but there are still opportunities to evaluate that appear to be running under the radar right now.

Let's take a look at two cheap stocks that might be interesting picks for your portfolio in 2020.

TransAlta

TransAlta (TSX:TA)(NYSE:TAC) used to be a go-to dividend stock for income investors, but a combination of high debt, low electricity prices, and a backlash against coal-fired power plants resulted in a downward spiral in revenue and the stock's price.

The company cut the quarterly dividend from $0.29 to $0.18, and then to $0.04, where it currently stands. The stock fell from $22 per share a decade ago to below $4 in early 2016. Since then, the share price has drifted slowly higher, hitting $10 in April 2019. At the time of writing TransAlta trades for $9 per share.

Fans of the stock point to reduced debt and clearer skies in the Alberta energy market as a reason to own TransAlta. In a deal with the province, TransAlta is receiving $37 million per year through 2030, as it transitions from coal-fired power production to natural gas and renewable energy.

In an investor presentation in January 2019, TransAlta said it is on track to hit its targets. The company should be delivering 100% clean power in Alberta by 2025 and is anticipating $500 million in free cash flow after 2021.

The company owns 61% of its drop-down subsidiary **TransAlta Renewables**, which holds the bulk of the renewable energy businesses and provides about $150 million in annual dividends to the parent company. Pundits have long argued that TransAlta is heavily undervalued based on the sum of its parts.

For example, the 61% position in TransAlta Renewables is currently worth $2.44 billion. TransAlta only has a market capitalization of $2.5 billion.

The company is making good progress on its turnaround efforts, and it wouldn't be a surprise to see a takeover bid emerge in the next couple of years.

CIBC

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) recently reported fiscal Q4 2019 results, which missed analyst expectations. The stock has slipped in recent days as a result, and contrarian investors are wondering when they should step in and buy the shares.

An increase in provisions for credit losses is the culprit in the latest report. This is a trend that most of the Canadian banks are seeing and is in line with other reports that suggest Canadian borrowers are carrying too much debt and finding it increasingly difficult to make all their payments.

The latest jump in unemployment from 5.5% to 5.9% doesn't bode well for the trend, so investors will have to watch the next earnings release from CIBC and the other banks to see how things are going.

That said, CIBC is trading at a cheap price, and any additional downside should start to make the stock appealing for a buy-and-hold portfolio. At the time of writing, CIBC trades at $109 per share, putting the price-to-earnings multiple at less than 10 times the trailing 12-month results.

If the stock gets back below $100, investors should consider adding CIBC to their portfolios. Even at the current price, you get paid a solid 5.3% dividend yield.

The bottom line

Buying out-of-favour stocks takes some courage, but the rewards can be significant for patient contrarian investors. If you have some cash on the sidelines, TransAlta and CIBC deserve to be on your radar.

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