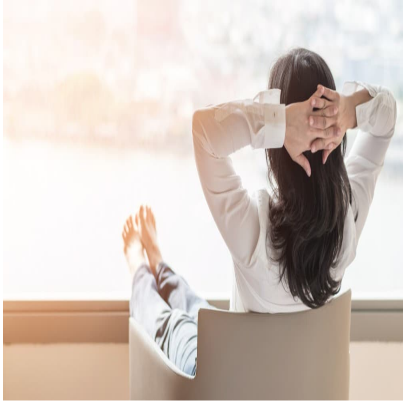

TFSA Investors: 2 Underdog Stocks for 2020

Description

Stock markets in Canada and the United States finished 2019 near record highs and investors are trying to figure out where to allocate new cash in their TFSA for 2020.

Let's take a look at two stocks that could deliver big gains this year and into 2021.

TransAlta

TransAlta (TSX:TA)(NYSE:TAC) experienced a rough time in recent years, but appears to be on the mend.

Low power prices, high debt, and negative sentiment toward coal-fired electricity production combined to hammer TransAlta, forcing the board to cut the dividend several times.

Once a popular choice among income investors, the stock went into a steep decline, falling from $20 in 2012 to below $5 in early 2016. Since that time, the stock has slowly recovered some lost ground and now trades above $9 per share at writing, and more gains should be on the way.

An agreement with Alberta for transition payments cleared up the uncertainty about TransAlta's future in the province. The company is committed to investing heavily in renewable energy and is receiving $37 million per year from Alberta through 2030 to help transition to natural-gas fired power plants.

TransAlta reported solid Q3 2019 results and upgraded its free cash flow guidance for 2019 from $270-330 million to $300-340 million when it released the Q3 numbers.

On December 17, the company raised outlook again to $350-380 million, citing a strong Q4 performance by the Energy Marketing segment.

TransAlta is doing a good job of paying down debt and is buying back shares. Investors could even see a dividend hike in 2020.

With the company in recovery mode, a takeover offer wouldn't be a surprise in the next few years. Cash flow could continue to exceed expectations in the coming months and a dividend increase would bring new interest to the stock. Given the positive momentum, a run to $12 per share is possible in 2020.

Inter Pipeline

Inter Pipeline (TSX:IPL) is a midstream player in the Canadian energy sector with conventional oil pipeline, oil sands pipelines, and natural gas liquids (NGL) extraction facilities.

The company also owns a bulk liquid storage business in Europe with sites in several countries. Management is considering a sale of the European operations to help fund the completion of the $3.5 billion Heartland Petrochemical Complex in Alberta that will convert cheap propane into raw material plastics.

Investors are taking a cautious approach due to the risk the company might take on too much debt to get the Heartland project finished. It's slated for completion in late 2021 and should generate average annual EBITDA of $450-500 million.

The stock trades at $22.50, compared to $35 five years ago, so there's solid upside potential. Any news of a sale of the European business would alleviate balance sheet concerns and could push the stock higher.

The shares briefly rallied to $25 in September on news the company had rejected a takeover offer. One media report said the bid was $30 per share.

The board held the dividend steady in 2019 after raising it in each of the previous 10 years. The current distribution should be safe and offers an attractive 7.6% yield.

Inter Pipeline appears oversold today and new investors get paid well to wait for better days.

The bottom line

TransAlta and Inter Pipeline appear to have bottomed and could deliver big gains in 2020. If you are searching for contrarian picks to add to your RRSP in 2020, these stocks deserve to be on your radar.

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