



3 Reasons to Buy TransCanada

Description

Perhaps no other company in Canada is caught up in the political sphere as much as **TransCanada** ([TSX: TRP](#))([NYSE: TRP](#)). Its proposed Keystone XL Pipeline has pitted right wing against left wing, unions against environmentalists, and Stephen Harper against Barack Obama. But there's a lot more to the company than just that pipeline.

Below are three reasons why you should consider adding TransCanada to your portfolio.

1. Predictable income

TransCanada has about \$50 billion worth of assets, including pipelines, natural gas storage facilities, and power plants. These assets are critical to their customers and typically operate on long-term contracts. This helps take the guesswork out of future earnings, which has numerous benefits.

First of all, predictable earnings make for a lower-risk investment. Secondly, they allow the company to put a lot of debt on the balance sheet without serious consequences. And finally, they allow the company to fund a stable, steadily growing dividend. TransCanada currently has a dividend yield of 3.8%, not bad considering the company has grown its dividend by 7% per year since 2000.

2. Strong growth prospects

It's only natural to think of Keystone when thinking of TransCanada. But that pipeline is only one of a large portfolio of projects in its future. All in all, the company has \$36 billion of commercially secured projects that will come online between 2014 and 2020. The current price tag of Keystone is only \$5.4 billion (although TransCanada has said that this number is an underestimate) — so even though it's a very significant project, it won't make or break the company.

3. Price

Predictable earnings, a stable dividend, and strong growth prospects are all very popular among Canadian investors, and it's not an easy combination to find. So are the company's shares expensive as a result?

At first glance, that may seem to be the case. TransCanada paid out more than three quarters of its earnings as dividends last year, yet still yields less than 4%. By comparison, the banks have about the same dividend yield despite paying out less than half of their earnings.

But pipeline companies like TransCanada generate much safer earnings than the banks, so this is to be expected. A more suitable comparison would be to **Enbridge** ([TSX: ENB](#))([NYSE: ENB](#)), which yields only 2.7%, despite also paying out more than 70% of its earnings.

Based on this discrepancy, it appears that TransCanada's price is being held back by nervousness about Keystone. But this is an overreaction, and has provided us with an opportunity.

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