



TransCanada Corporation: 1 Dividend Stock for the Next 100 Years

Description

If you had to put all of your money in one stock for the next 100 years, which company would you pick?

Forget about the fact that you probably won't be around to see the results. Do this for your great-grandchildren. The question is still an interesting thought exercise.

That's because when you start thinking about stocks on this timescale, it gives you a perspective we often miss in the day-to-day grind. The importance of a company missing quarterly earnings by a penny start to fade. Instead, you start to focus on just a few principles to identify truly wonderful businesses.

The three traits of a Centennial Stock

When searching for companies that can stand the test of time, I look for the following traits:

Timeless product: Wonderful businesses don't deal in complicated financial derivatives or have to invent the next hot tech gadget every year. Rather, they provide a timeless product or service, sometimes for generations. Before buying any stock, ask yourself, "Can I easily imagine my great-grandchildren using this product?"

Irreplaceable asset: What do railroads, hydroelectric dams, and utility services all have in common? They are all irreplaceable assets. Another company cannot simply build a competing business. These assets aren't about to be replaced by a new technology.

Pricing power: When Warren Buffett is asked what he looks for in a business, his answer is always the same: pricing power. Great companies hold such a powerful position in the marketplace that they can easily pass on high costs to customers. This protects investors' capital from inflation.

Of course, this is all common sense — strong companies with irreplaceable assets and loyal customers should outperform. It doesn't take an MBA to figure that out.

That said, there are no sure things in investing. Even seemingly rock-solid companies aren't guaranteed to exist decades from now. But if you invest in companies with two or more of the above traits, then you have the best chance of preserving your capital and making money over the

long haul.

The last dividend stock you'll ever need

I let the above question rattle around in my head for a few days. Eventually, I came up with one answer: energy pipeline giant **TransCanada Corporation** ([TSX: TRP](#))([NYSE: TRP](#)).

The economic power of pipelines has been evident since the 1800s. Back then, pipeline operators were able to undercut the steep prices being charged by barrel makers and barge operators. Even today, there is no cheaper method of transporting energy once a pipeline is laid. This gives the industry a permanent cost advantage.

If this wasn't good enough, pipelines rarely face much competition. Once a pipeline is laid, it's difficult to secure right-of-ways needed for a second line. Even if this is possible, a pair of parallel pipes would merely split the existing business, greatly diminishing returns. In essence, this makes almost any established pipeline a *de facto* monopoly.

And while energy prices are volatile, the number of barrels moving through pipelines are remarkably consistent from year to year. TransCanada charges a fee on every barrel of oil and gas that flows through its network. Because these volumes are so stable, the profits from this business resemble bond coupons.

Best of all, while pipelines require an enormous up-front investment, they're not that expensive to maintain. They need almost no maintenance or labour. Once a pipeline is laid, it just sits there spitting out cash flow.

Most of this cash is funneled to shareholders. TransCanada has hiked its distribution every year since 2000. Today, the company pays investors a quarterly dividend of \$0.48 per share, which comes out to an annualized yield of 3.2%.

And don't count on that streak to end anytime soon. Given the strength of the underlying business, you can expect TransCanada to continue cranking out dividends for decades and centuries to come. That's why this stock deserves a permanent place in any income portfolio.

CATEGORY

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2. Investing

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