



3 Reasons to Buy TransCanada Corporation

Description

Pipeline companies like **TransCanada Corporation** ([TSX: TRP](#))([NYSE: TRP](#)) were once called widow and orphan stocks. There were good for paying steady dividends, but not much in the way of excitement.

Boy, has that view changed. Today, the stock is a core holding in dividend and growth portfolios alike. And over the past five years, the TransCanada has delivered a sizzling 100% total return, handily beating the **S&P/TSX Composite Index** over that time.

Yet despite the big run, the stock still has a lot of upside. So if this company isn't in your portfolio already, here are three reasons to buy TransCanada.

1. The split

Over the past few weeks, TransCanada shares have rallied on rumors of a breakup. In June, **Citigroup** analyst Faisal Khan argued that the firm could add \$26 to the stock price by spinning out its pipeline business. In his view, the market would be willing to pay a premium multiple for the division's steady dividend income and big growth potential.

Activists are now polling investors to gauge their interest in a breakup. A split would allow shareholders to exit with a quick profit. But even if no breakup occurs, this is still a great stock to own.

2. The growth

North America is on the path to energy independence. Billions of barrels of once unrecoverable oil are now being pulled out of shale fields across the continent. By 2020, North America could completely wean itself off of energy imports.

Firms that store and move all of this energy could make a fortune. TransCanada does exactly that. To accommodate growing output, the company has dozens of projects slated, including thousands of miles of pipeline extensions and new processing facilities.

In total, TransCanada has over \$36 billion in secured growth projects on the books. Altogether, analysts predict that the firm will be able to increase earnings at a 10% annual clip over the next five years.

3. The dividends

TransCanada is one of those 'Forever Stocks': a cash-gushing firm that has rewarded shareholders for decades. Its main businesses — energy pipelines and power generation — are natural monopolies. Two rivals simply cannot serve the same market.

Utilities and pipelines are almost untouched by recessions or war. No matter what the economy is doing, households still need to heat their homes. This means TransCanada's cash flows are so steady, they look like bond coupons.

This is how TransCanada has been able to pay such stable, oversized dividends. Today, it pays a quarterly distribution of \$0.48 per share. That comes out to an annual yield of 3.3%. However, given the tailwinds behind the firm, you can expect that payout to keep growing in the years ahead.

A stock for the next 100 years

TransCanada is so reliable, you could hold it for the rest of your life. When you own a business like this, you no longer have to worry about inflation or flash crashes. My advice: Buy it, hold it, and let this stock make you rich.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:TRP (Tc Energy)
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