



TransCanada Corp. Was Recently Upgraded: Is This a Signal to Buy?

Description

Despite the rout in oil prices and the controversy surrounding the Keystone XL pipeline, **TransCanada Corp.** ([TSX:TRP](#))([NYSE:TRP](#)), Canada's second largest provider of transportation and midstream services is fast shaping up as a solid investment opportunity.

TD Securities recently upgraded the company from "hold" to "buy" and it is easy to see why this occurred.

So what?

TransCanada's business is almost impossible to replicate. It operates one of North America's largest networks of oil and natural gas pipelines which, at 68,500 kilometres, taps into virtually all major gas supply basins on the continent.

There are significant barriers to entry into the crude transportation and midstream services industry, including major regulatory hurdles and the need for significant capital investment.

These characteristics give TransCanada a wide, multifaceted economic moat that protects its competitive advantage and helps to smooth out earnings growth.

TransCanada also possesses a diversified portfolio of assets outside its pipeline and midstream operations. These include owning or having an interest in over 11,900 megawatts of power generation located in Canada and the United States. Electricity is an important component that powers economic activity and our modern lives; its inelastic demand virtually guarantees earnings from these operations.

TransCanada pays a steadily appreciating dividend that has grown for 14 straight years since inception. You can tell a lot about a company's business by how it acts during times of crisis. TransCanada was one of the few companies to hike its dividend during the dark times of the global economic crisis, when most companies were slashing dividends or cancelling them altogether. It now pays a juicy 3.6% yield, coupled with a sustainable dividend payout ratio of 80%.

Now what?

As a tollbooth business that forms an integral link between the energy patch and North American refining markets, TransCanada is well positioned to continue its earnings growth, despite the rout in crude prices. This is because it is able to 'clip the ticket' on every barrel of crude or cubic metre of natural gas it transports. TransCanada is also not wholly reliant upon the energy patch for all of its earnings, with its electricity assets also providing a regular revenue stream.

With its steadily growing dividend and a juicy 3.6% yield that will continue to reward investors for their patience, it is easy to see why TransCanada has been upgraded and belongs in every income-focused portfolio.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date

2025/09/13

Date Created

2015/01/23

Author

mattdsmith

default watermark

default watermark