TransCanada Corp.: A Dividend Chart Every Investor Needs to See

Description

Even with the controversy surrounding the Keystone XL Pipeline, **TransCanada Corp.** (TSX:TRP)(NYSE:TRP) is one dividend-paying stock investors should pay close attention to.

So what?

TransCanada's crude transportation network forms an important link between Canada's energy patch and critical energy markets. More importantly, its pipeline operations are essentially a tollbooth business that allow it to 'clip the ticket' on every cubic metre of natural gas and barrel of oil it ships. Growing demand for energy, in particular, natural gas, has caused TransCanada's earnings to grow over time. For the third quarter 2014 both EBITDA and cash flow increased compared to the same period in 2013 by 10% and 2% respectively.

This earnings growth is also virtually guaranteed.

As it happens, TransCanada has a wide economic moat protecting its competitive advantage. This moat is created by the difficulty in replicating its existing pipeline and natural gas storage business. To do so would require an immense capital investment and take a considerable amount of time to construct the required pipelines and associated infrastructure.

There are also significant regulatory hurdles for prospective competitors to overcome, because the transportation of crude and natural gas is heavily regulated.

Another key strength of TransCanada's business is its portfolio of electricity generating assets. These include interests in natural gas, nuclear power, coal, hydro and wind power generation totalling almost 12,000 megawatts. The demand for electricity remains virtually unchanging, with it an important component that powers not only our modern lives but also economic activity.

For these reasons TransCanada's earnings have continued to grow and it has been able to continue rewarding investors with a steadily growing dividend.

If you take a closer look at the chart below you can see what I mean.

TRP Dividend Chart 280115

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Source: TransCanada Investor Relations.

For the last 14 straight years TransCanada has hiked its dividend, giving it a solid yield of 3.7%. But more importantly, especially in a time when a number of energy companies are slashing their dividends, TransCanada's dividend appears sustainable with a payout ratio of 81%.

These regular dividend hikes gives TransCanada's dividend an impressive compound annual growth rate of 6.5% since inception. This is not only more than triple the annual average inflation rate over that period, but is significantly higher than any return an investor could earn from a traditional income investment such as a bond or a certificate of deposit.

Despite the recent rout in crude prices I don’t expect TransCanada’s earnings growth to end. You see, global energy demand according to the International Energy Agency will grow by 37% between now and 2040, with India to become the leading engine of energy demand.

Another boon for TransCanada was the recent decision by the Bank of Canada to cut interest rates to counter the negative impact of markedly lower oil prices on the Canadian economy. This has made debt even cheaper, thereby potentially reducing financing costs for capital intensive infrastructure projects.

Now what?

While it has been rocky road for TransCanada, particularly with the controversy surrounding the Keystone pipeline, the company continues to reward investors with a steadily growing and sustainable dividend. Furthermore, even without the Keystone pipeline and despite the rout in crude, it is well positioned to continue growing earnings and hiking its dividend over the long-term as global energy demand grows.

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