3 Reasons to Buy TransCanada Corporation

Description

There's no shortage of news stories about **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) these days, most of them being about the Keystone XL pipeline. And to say the least, Keystone's prospects are not looking good.

But of course, TransCanada is about much more than just one pipeline, and thanks to the Keystone headlines, the rest of the company isn't getting the recognition it deserves. This creates a great investment opportunity.

On that note, below are three big reasons to buy TransCanada shares.

1. Other business opportunities

At this point, one has to wonder if Keystone is even a good idea. The pipeline's cost estimate has skyrocketed, and with declining prospects for Canada's energy patch, there may be less of a need for Keystone in any case. Fortunately, there are other ways TransCanada can spend its money.

One interesting way is the Upland pipeline proposal, which would transport oil from the Bakken Formation in North Dakota 200 miles north to Canada. It will be interesting to see if Upland runs into the same opposition as Keystone has. After all, Upland would be of no help to the Canadian oil sands, which are less environmentally friendly than the Bakken.

Furthermore, about three quarters of Bakken oil is transported by rail, which is especially dangerous in this case. This is because oil from the Bakken is very light (similar to gasoline), making it more explosive in the event of an accident. For example, the Lac-Mégantic tragedy involved Bakken crude.

Ironically, TransCanada is also looking to get into the crude-by-rail business by building loading and offloading facilities. This should help to further diversify earnings, and oddly enough, won't cause the same regulatory headaches that pipelines do.

2. Hidden value

Last year, an activist hedge fund called Sandell Asset Management bought about $40 million worth of TransCanada shares, and published a presentation about how the company could unlock shareholder value. The presentation called for TransCanada to immediately transfer all its U.S. assets into a master limited partnership, resulting in big savings on taxes. This is exactly what rival **Enbridge Inc.** has done, and shareholders have been rewarded very nicely.

Unfortunately, TransCanada would prefer a more methodical approach, and Sandell has since given up. But this doesn't mean there isn't lots of hidden value in TransCanada. And as long as shareholders are patient, this will likely show through.

3. Steadily growing dividends

After beating estimates last quarter, TransCanada has once again hiked its dividend, which now stands at $0.52 per share per quarter. This equates to about a 3.7% yield. That's not a bad deal for a dividend that has risen by 7% per year since 2000. Impressively, the dividend has been raised every year over this time.

So, as long as you're willing to ignore the headlines, you can own a solid company, with plenty of hidden value and investment opportunities. There aren't many opportunities like that in Canada.

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