Dividend Investors: Should You Buy TransCanada Corporation?

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) has made headlines over the past couple of years—for all the wrong reasons.

The company's infamous Keystone XL pipeline remains in regulatory limbo. As these delays mount, TransCanada's profits are starting to stagnant.

For most folks, that's a good enough reason to give the stock a pass. But investors who skip over TransCanada could be missing out on one of the market's best income opportunities.

Here are three reasons to like this stock.

1. It's a wonderful business

If you follow the news, you probably know that building a pipeline is a real pain. But once you have one up and running, there's no better business in the world… especially if you like earning steady dividend income.

Pipelines don't care about recessions or wars. While energy prices can swing wildly from year to year, the total volume being shipped is remarkably consistent. Because TransCanada simply charges a fee on every barrel of oil that flows through its network, the company's cash flows are as safe as Granny's snuffbox.

There's little competition. Trucks and rail cars can't compete once a pipeline is in place. The only true competition to a pipeline is another pipeline that runs right beside it.

However, breaking into the business isn't easy. The sheer cost to build a competing line is enough to keep most potential rivals out. And even if you could scrape together the funds, governments are often hesitant to grant the needed right-of-ways.

And while pipelines require a big upfront investment, they're not that costly to maintain. Once laid, a pipeline just sits there. Day in and day out, it delivers oil to customers.

Ongoing costs are only a small percentage of revenues. The rest can be paid out to shareholders.

2. It's a dividend machine

As a result, TransCanada is absolutely gushing dividends, pun intended.

In April, the company hiked its dividend by 8.3%—the 15th consecutive increase. Today, TransCanada pays out an annual dividend of $2.08 per share, which comes out to a yield of 3.8%.

And don't expect that streak to end anytime soon. In November, executives pledged to double the company's dividend growth rate to between 8% and 10% annually through 2017, up from less than 5% per year previously. That's a strong vote of confidence in the business.

Of course, you can't take those dividend hikes to the bank just yet. Future payout increases still have to be approved by the board and will depend on the company's earnings and cash flow. However, executives would not have raised investors' expectations unless they were confident they could deliver.

3. It's reasonably priced

Notice I didn't say the stock is cheap—it isn't.

Thanks to rock bottom interest rates, income stocks like TransCanada have never been more popular. But as legendary investor Warren Buffett would say, it's far better to buy a wonderful business at a fair price than an average business on the cheap.

Today, TransCanada trades at about 20 times estimated 2015 earnings. That's slightly above the stock's historical average. Given the company's attractive yield, solid growth potential, and entrenched market position, the valuation seems reasonable.

Where this stock goes next is anyone's guess. But given TransCanada's long track record of rewarding investors, shareholders should be able to count on a growing stream of dividends for decades to come.

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