



Is TransCanada Corporation Still a Safe Dividend Bet?

Description

The NDP victory in Alberta is causing an exodus out of oil producers, and investors are wondering if they should steer clear of everything connected to the oil patch.

Let's take a look at **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) to see if it belongs in your portfolio today.

Earnings

In its Q1 2015 earnings statement, TransCanada reported comparable net income of \$465 million, or \$0.66 per share, compared with \$422 million, or \$0.60 per share, for the same period in 2014.

The slowdown in the energy sector is certainly having an impact, but TransCanada's diversification across power, gas, and liquids assets is helping it weather the storm.

The company said it saw strong performances in several segments, including its Keystone System, Eastern Canadian Power, and U.S. Power. The weak link in the quarter was the Western Power segment, which continues to struggle with depressed electricity prices.

Capital projects

In the next three years, TransCanada expects to bring \$12 billion of small- to medium-sized projects online. This is important for investors because it means cash flow and distributions should continue to increase.

The company also has an additional \$34 billion of commercially secured projects on the go, which should extend the growth of earnings and cash flow through 2020.

On the natural gas side of the business, TransCanada has about \$6.7 billion in new supply and demand facilities under development. The \$1.7 billion North Monteny Mainline project is of particular interest because it is located in British Columbia and is an important part of the overall plan to move natural gas to international markets through the liquefied natural gas (LNG) facilities proposed for

development near Prince Rupert, B.C.

TransCanada also has some big liquids pipelines in the works, but investors should be cautious about betting on them.

At a proposed cost of \$12 billion, Energy East is the largest of TransCanada's projects. The company has already signed binding long-term contracts for one million barrels per day of shipments, representing about 91% of the proposed capacity of the project. TransCanada expects the pipeline to be in service by the end of 2020.

The media favourite, Keystone XL, is still up in the air. Costs for the project have ballooned to \$8 billion but TransCanada's customers are still committed to getting the pipeline built. A decision on Keystone shouldn't be expected before 2016 at the earliest, and it may be delayed until a new president is elected in the U.S.

Dividends

TransCanada pays a dividend of \$2.08 that yields about 3.9%. The company has a strong history of raising the distribution and that trend should continue as new projects go into service.

Should you buy TransCanada?

The NDP win in Alberta has the market sitting on the edge of its seat, wondering what is going to happen to the already struggling energy sector. Once all the noise settles, markets will realize that oil and gas production in western Canada will continue to grow and TransCanada should see strong demand for its services.

At some point, either Energy East or Keystone will likely be built, but investors should treat those as bonuses at this point. I think TransCanada is a strong long-term bet and further weakness in the stock should be seen as a buying opportunity.

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