



Should TransCanada Corporation Be on Your Dividend Radar?

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)) is a popular pick with the dividend crowd, and the recent pullback has new investors wondering if they should start a position in the stock.

Let's take a look at the current situation to see if TransCanada deserves to be in your portfolio.

Major projects

TransCanada gets a lot of attention for its Keystone XL and Energy East projects. The northern leg of Keystone has endured long delays and rising costs as the company and President Obama have been unable to see eye to eye on the benefits of running the new pipeline.

The current budget to get the pipeline completed sits around US\$8 billion and an approval is now unlikely until a new administration takes office south of the border. TransCanada has already invested US\$2.4 billion in the project and major customers still stand behind it. The company is working hard to address ongoing roadblocks, but investors should probably look at Keystone as a bonus at this point when deciding whether or not to buy the stock.

Energy East is TransCanada's \$12 billion project designed to carry crude oil from western Canada to refineries in Quebec and New Brunswick.

The project requires the construction of new pipelines across six provinces as well as building new terminals and converting an existing natural gas pipeline into one capable of transporting crude oil.

The company already has contracts in place to cover one million of the 1.1 million barrels of shipping capacity. Provincial and municipal governments are still negotiating with TransCanada regarding the pipeline routes and that process could drag out longer than expected.

At the moment, TransCanada is targeting 2020 as the in-service date.

Smaller projects

TransCanada also has a series of smaller projects on the go that are moving along very well. In fact, the company expects to complete about \$12 billion in new pipelines by 2018.

As each new project switches from development to service, cash flow increases, and TransCanada normally returns much of the added revenue to shareholders in the form of higher dividends.

The company currently pays a quarterly dividend of \$0.52 per share that yields about 4%.

Valuation

TransCanada is currently trading at a reasonable 19 times forward earnings. The uncertainty around the major projects is probably reflected in the stock price right now, and that should mean that investors have limited downside risk in the event that either Keystone or Energy East gets delayed beyond current expectations.

Should you buy TransCanada?

The company offers dividend investors a very safe 4% yield. I believe Energy East will eventually get built and the value associated with that asset probably isn't reflected in the share price.

Given the extent of the pullback in the stock, long-term investors should be comfortable buying at the current price.

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

2015/07/16

Author

aswalker

default watermark