3 Reasons to Buy TransCanada Corporation and its 4.7% Dividend

Description

This year has not been a particularly good one for **TransCanada Corporation** (TSX:TRP)(NYSE:TRP). Most notably, the company's two big projects—Energy East and Keystone XL—remain caught up in regulatory hurdles. In fact, speculation is mounting that United States President Barack Obama will reject Keystone XL this month. Adding to the pressure, the fall in oil prices is raising questions about the future demand for pipelines.

As a result of all these concerns, TransCanada's stock price has fallen by more than 25% so far in 2015. Consequently the company's dividend has risen to 4.7%, up from 3.4% at the beginning of the year.

But the dividend isn't any riskier now, and is therefore a fantastic opportunity for any dividend investor. We take a look at three reasons why below.

1. A stable business model

As we all know, TransCanada's main business is transporting oil and gas through pipelines. This might scare some investors, especially those who want zero exposure to energy stocks.

But there are some big differences between TransCanada and energy producers. Most importantly, TransCanada's pipelines are secured by long-term contracts, thus leaving the company unexposed to commodity prices.

Besides, it's important to remember that low energy prices are caused by increased supply. And this supply needs to be transported to market somehow. So, there should always be plenty of demand for TransCanada's services.

2. A need to replace crude by rail

Over the past few years the crude-by-rail business has grown at a meteoric pace. To illustrate, back in May there were over 30 million barrels of crude oil moved by rail in the United States. Back in January of 2010 this number was just 630,000.

Crude by rail has been particularly popular in the PADD II region, which includes the Bakken formation in North Dakota. To put it simply, output from the Bakken has outgrown the pipeline capacity in the region, and crude by rail is picking up the slack.

But Bakken crude is highly flammable, and is very dangerous to transport by rail. Notably, the devastation at Lac Mégantic, Québec, in July 2013 involved Bakken crude.

So, there's a serious need to replace crude by rail at the Bakken, and this is the case at various other energy formations, too. TransCanada is well positioned to fill this need.

3. A sustainable payout ratio

In the energy sector it's common practice for a company to pay more in dividends than it makes in income. Of course, these dividends are most at risk of being cut.

But TransCanada's dividend is much more sustainable. In the past 12 months the company has made $2.50 per share in income, yet its annualized dividend sits at only $2.08.

So, even if TransCanada's income falls slightly, the company should have no trouble maintaining its dividend, or even increasing it. This should help its income-oriented shareholders sleep very easily.

To sum up, TransCanada has a solid business model, a bright outlook, and a sustainable dividend. It's not often you can get a 4.7% yield from a company like that.

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