Should Investors Consider Acquiring TransCanada Corporation?

Description

Before I had ever learned about the name **TransCanada Corporation** (TSX:TRP)(NYSE:TRP), I knew about the company. For political reasons, TransCanada has appeared regularly on the news and in government legislative houses across the United States and Canada.

But knowing about a company and investing in a company are two different things. The question remains: should investors acquire shares of TransCanada Corporation?

There are a few points that factor into the decision.

Keystone XL and Energy East are a burden

TransCanada has two big-name projects: its Keystone XL and Energy East pipelines. These pipelines, if they were to be brought online, would generate significant revenue for TransCanada. Unfortunately for the company and investors, they're going nowhere.

Keystone can't get past President Obama's veto. Every time the Congress votes, he turns it down. He doesn't believe that Keystone is a good idea for the environment. And Energy East requires approval from the majority of Canadian provinces and the federal government. That is an unlikely outcome as well.

That's $20 billion in capital projects that are not likely going to contribute to the company for some time. There are some investors that believe that they just have to wait out President Obama, but unless the United States gets completely crazy, Donald Trump isn't going to win, and it looks like there will be an additional four years of Democratic presidential control.

Earnings

There's good and bad news for TransCanada when it comes to earnings. On one hand, the company reported $429 million in net income for Q2 2015. On the other hand, that was about the same the previous year. That means the company hasn't experienced any growth in its earnings, primarily because its two biggest growth projects are dead on arrival.

But this isn't necessarily bad news. The fact that the company didn't contract its net income, even with over $30 billion in capital projects, is quite impressive. And I imagine that, as it expands into other, smaller pipeline projects, it will be able to have some growth. It's just not the growth investors have craved from Keystone and Energy East.

Dividends

This is where we really decide if we should buy this stock. Because earnings are so consistent, the company is able to pay a 4.63% yield, which comes out to $0.52 per quarter. That alone would make this stock a worthy buy. But the company is also planning to increase its distribution of income to investors by 8-10% every year until the end of 2017. Based on where we are in the calendar year, you can expect the dividend to be over $0.60 per quarter by the end of 2017.

But should you buy?

TransCanada is certainly a fine buy. It pays a lucrative dividend, it's underpriced, and it generates significant income. Further, its income is predictable because it signs long-term contracts with its clients. Therefore, buying shares of this company would be a smart move. And in the rare event that Keystone XL and Energy East get approval, the stock price and the dividend should go up.

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1. Energy Stocks
2. Investing

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1. Editor's Choice

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2. TSX:TRP (TC Energy Corporation)

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