



## Is TransCanada Corporation a Good Income Investment?

### Description

**TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) yields 4.6% at about \$45. With the low-interest rate environment, the 10-year bond rate is under 2.2%. This makes TransCanada's yield look attractive. Should investors consider TransCanada shares, which are riskier than bonds? First, let's take a look at its business.

### Business

TransCanada has been a leading energy infrastructure company in North America with over 60 years of experience. Its three business segments are natural gas pipelines, liquids pipelines, and energy. In 2014, these three businesses generated \$5.5 billion of EBITDA and \$4.3 billion of funds from operations.

To put it simply, TransCanada safely delivers natural gas to heat homes and businesses, sends electricity to light up cities, and transports oil to run our vehicles.

### Assets

Today, TransCanada's assets total roughly \$63 billion. It owns one of North America's largest networks of natural gas pipelines, spanning 68,000 km. Its liquids pipelines span more than 4,200 km. And it owns 19 power plants that can generate 10,900 megawatts of power.

### Past performance and dividend growth

By buying shares in a stock, you own a piece of the business. You take on the risk of the business and share its profits if the business does well. So, it's useful to take a look at TransCanada's past performance.

TransCanada has delivered an average annual return of 13% since 2000. As well, it has increased its annual payout from 80 cents per share to \$2.08 per share from 2000 to 2015, assuming the company maintains a quarterly dividend of 52 cents per share in the fourth quarter as it has done for the first three quarters of the year. This would be a compound annual growth rate (CAGR) of 6.6%, doubling

the rate of inflation.

### **Accelerated growth and dividend growth going forward**

Going forward, TransCanada's growth will be spurred from its \$46 billion commercially secured projects that are expected to be in service through 2020. All of these projects are backed by long-term contracts or a regulated cost-of-service business model, so they should generate predictable cash flows that help support dividend growth.

In fact, TransCanada anticipates the strong growth to lead to an accelerated growth in its dividend. TransCanada's dividend grew at a CAGR of roughly 4% from 2011 to 2014, but the business forecasts to grow its dividends by 8-10% through to 2017. The higher growth is likely lead to multiple expansions, leading to price appreciation. With a starting yield of 4.6%, an investment today would have a yield on cost of 5.3-5.6% by 2017.

Simply put, an investment of roughly \$4,500 today would buy you 100 shares and generate \$208 of annual income. By 2017, it would generate \$242-252 of annual income based on the company forecast.

### **In conclusion**

TransCanada Corporation shares have fallen over 23% from its 52-week high of \$59 to \$45 due to low oil prices. However, the business has commercially secured projects down its pipeline to spur further growth. So, Foolish investors can take this opportunity to buy some shares of this leading energy infrastructure company on the pullback.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

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