Does TransCanada Corporation Belong in Your Dividend Portfolio?

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) is down nearly 20% in the past 12 months, and investors are wondering if the company's popular dividend is still a safe bet.

Let's take a look at the pipeline player to see if it deserves a spot in your portfolio.

Market overview

Canada's pipeline companies have taken a hit this year as investors worry about the long-term impact of the rout in the energy market.

Commodity price fluctuations don't hit the pipeline companies directly. They are not producers of the resource; they simply act as tollbooths to move the product from the producer to the end destination.

Low prices do, however, put pressure on future development, and that determines how much demand there will be for new infrastructure.

If producers are cutting back on expansion projects, there is less opportunity for companies like TransCanada to build additional pipelines.

Project delays

TransCanada is also faced with delays on two of its larger projects: Keystone XL and Energy East.

Keystone would carry western Canadian oil into the United States to supply refineries located on the Gulf coast. The lower leg of Keystone has already been built and is providing a nice stream of revenue, but the northern portion of the project remains blocked by the U.S. government.

President Obama has refused to give Keystone the green light, and his potential successor, Hillary Clinton, is also against the project.

That means TransCanada will have to hope for a Republican victory next year if it wants to see progress made on the Keystone project.

Energy East is designed to carry the crude from western producers to refineries on the Canadian east coast. That project is also caught up in a mess of political barbwire and is unlikely to meet its 2020 in-service target, unless the provinces and the new federal government are able to hammer out a deal.

At this point, investors should probably put a 50% chance on both projects.

Dividend safety

The market seems to be ignoring the fact that TransCanada has $12 billion worth of other infrastructure assets planned or under construction that will go into service by 2018. That's not small potatoes, and the effect on cash flow is significant enough that TransCanada plans to increase the dividend by 8-10% through 2017.

TransCanada pays a quarterly distribution of $0.52 per share that yields 4.7%.

Should you buy?

The stock has come down so much that the market is pretty much assuming the major projects won't be built. If good news comes out on either Keystone or Energy East, the stock could rally significantly.

The dividend will increase at a solid pace for the next few years. If you buy today, you are guaranteed a great payout and probably have limited downside risk on the shares.

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