Is TransCanada Corporation Still a Valid Dividend Investment Without Keystone XL?

Description

Investors may be worried about **TransCanada Corporation's** (TSX:TRP)(NYSE:TRP) growth prospects after President Obama rejected the Keystone XL pipeline. Should you still consider it as a dividend investment? First, let's take a look at TransCanada's business today.

Business and assets

TransCanada Corporation is a leading Canadian energy infrastructure business with about $66 billion worth of assets.

It has one of the largest natural gas pipeline networks in North America, including 68,000 km of pipeline and 368 billion cubic feet (Bcf) of storage capacity. Those assets serve 20% of continental demand.

TransCanada also has a liquids pipeline system consisting of 4,250 km of pipeline. It serves 20% of western Canadian exports. Additionally, the business also owns 19 power plants that have 10,900 megawatts of capacity.

Track record of solid business performance

Since 2010, TransCanada put $20 billion worth of assets across 14 projects into service. Further, there was $40 billion worth of commercially secured projects. Cash flows generated from these assets, along with TransCanada's existing assets, allowed for $6 billion worth of dividends to be paid out. Future dividends are up for grabs by anyone who wishes to own a piece of the energy infrastructure leader by buying its shares.

Healthy dividends must be supported by earnings growth. From 2010 to 2015, earnings increased at an average annual rate of 10%, while dividends increased at an average annual rate of 5%.

Dividend and growth

Even without the Keystone XL pipeline, TransCanada still sees visible growth through 2018 and beyond. For example, it has $13 billion worth of short-term projects and $35 billion worth of long-term projects that are commercially secured.

TransCanada has increased dividends for 14 years in a row, and it anticipates to return even more dividends to shareholders. Dividends are now forecast to grow on average 8-10% per year through 2020.

Valuation

The 2015 earnings and funds from operations are expected to exceed 2014's. Yet the share price has gone down from a high of $60 in 2014 to $43 per share today.

Looking at historical trading levels, it turns out that the company was too expensive before. At $60, it traded around a multiple of 25! Currently, the multiple is under 18, which is much more reasonable. Over 15 years, the company normally traded around a multiple of 18.

In conclusion

TransCanada has a low-risk business model that generates about 90% of earnings from regulated assets or long-term contracts. The business world is an ever-changing landscape. Even without the Keystone XL project, with oil remaining the largest source of energy, and a shift of demand to natural gas, TransCanada is still positioned to do fine.

TransCanada offers an above-average yield of 4.8% that's anticipated to grow 8-10% on average per year through 2020. So, if you bought 100 shares today based on the company's dividend-growth guidance, you can expect your income to grow from $208 a year to at least $305 a year by 2020. That would equate to a yield-on-cost of 7%, and your income from the investment would increase by 46% in five years.

In my opinion, TransCanada is fairly valued and is a good investment as a part of a diversified dividend portfolio.

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