TransCanada Corporation May Be the Best Dividend Stock on the TSX 60

Description

Of the 10 highest-yielding stocks on the **S&P/TSX 60**, seven pay out more in dividends than they make in income. Two others–**Potash Corporation of Corporation** and **National Bank of Canada**–are making their shareholders very nervous.

Oddly enough, the last name on the list is **TransCanada Corporation** (TSX:TRP)(NYSE:TRP), whose Keystone XL pipeline proposal was just rejected by U.S. president Barack Obama. As of this writing, TransCanada's dividend yields nearly 5% and could easily be your best dividend option on the TSX 60. We take a closer look below.

A stable business

Plummeting oil prices have not been helpful to TransCanada. As energy firms cut back on drilling, they need fewer pipelines. In response, TransCanada laid off 185 employees from its projects division in June and eliminated roughly 20% of its senior managers in the fall.

But the company hasn't been hurt as badly as the newspapers would suggest. In fact, the company's funds generated from operations have been 9% higher this year than in 2014.

There are multiple reasons for this. TransCanada's pipelines are generally secured by long-term contracts, ones that don't expose the company to falling commodity prices. The vast majority of its pipeline system transports natural gas. And the company has made increasing use of its Master Limited Partnership (MLP) to lower its tax bill in the United States.

So even if oil prices remain depressed for a while, it won't seriously damage TransCanada's prospects nor its dividend.

A promising outlook

TransCanada still has roughly $35 billion of commercially secured projects, none of which will receive the same scrutiny that Keystone did. And when looking at the long term, demand should continue increasing for pipelines. After all, trains are heavily relied on to move crude from North Dakota's

Bakken formation, even though transporting crude by rail is very expensive and dangerous.

Better yet, TransCanada can continue to transfer American assets to its MLP to save on taxes.

Big ambitions

Even with Keystone's rejection, TransCanada hopes to grow its dividend by at least 8% per year over the next two years. I have little doubt that that can be achieved. Furthermore, for a company with such a strong business model, a 4% dividend yield would be perfectly reasonable.

If that scenario plays out, then TransCanada would trade for over $60 per share in two years. With the stock currently trading below $45, that's not a bad return at all. Dividend investors, take note.

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Date
2025/07/21
Date Created
2015/11/26
Author
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