How TransCanada Corporation Keeps Raising its Dividend

Description

The past year has given **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) some nasty surprises. Oil prices have languished even further, falling below US$30 per barrel, and the Keystone XL megaproject was rejected by U.S. president Barack Obama. And over the past 12 months, its U.S.-listed shares are down by about 25%.

Yet at the same time, TransCanada continues to post solid results. The company generated $453 million in the past quarter (excluding an impairment charge related to Keystone XL) and raised its dividend by 9%. This marks the 16th consecutive year that the company has increased its payout.

Of course, this comes at a time when energy producers are announcing steep losses, big write-downs, mass layoffs, and dividend cuts. So how is TransCanada so consistent? And will the company's streak continue in this challenging environment?

Not an energy producer

If you looked at TransCanada's stock price over the past year, you'd think that the company drilled for oil and gas. But, of course, that's not what TransCanada does. Instead, it operates a pipeline network, and that makes all the difference.

These pipelines largely generate revenue through long-term contracts with reliable counter-parties, leaving TransCanada with minimal exposure to commodity prices. The company is also the largest private-sector power generator in Canada, which helps to diversify earnings away from hydrocarbons.

Still plenty of opportunities

While energy producers are cutting back, TransCanada still sees plenty of room for growth. The company has roughly $14 billion in near-term growth projects and more than $20 billion in long-term projects.

Meanwhile, TransCanada bought back over seven million shares in the most recent quarter, and additional repurchase activity will give a small boost to earnings.

A true dividend champion

After the most recent increase, TransCanada's dividend now yields 6.5%. Clearly, there are some concerns that the dividend isn't sustainable.

Yet TransCanada plans to grow its dividend by 8-10% per year to 2020, and when looking at its business model–as well as its growth prospects–such a goal seems very reasonable. If the company is indeed able to meet this target, then its annual dividend will be over $3 per year in four years. If that dividend yields a reasonable 5%, then its stock will be worth $60, and shareholders will have earned an annualized return of nearly 20%.

So even though TransCanada may sound scary right now, it should be one of the top picks for any dividend portfolio.

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