



Is TransCanada Corporation a Good Dividend Investment Today?

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)) fell more than 30% from a 2014 high of \$60 to a 2015 low of \$41 and has recovered to \$50. It pays a 4.5% yield with a strong dividend-growth track record. Is it still a good dividend investment today?

First, let's explore its business.

The business

Firstly, TransCanada transports roughly 20% of North America's daily natural gas needs to heat homes. It also has 368 billion cubic feet of capacity for natural gas storage.

Secondly, TransCanada owns and has interests in 20 facilities that generate up to 13,100 megawatts of electricity, of which one-third are powered from emission-free sources such as nuclear, wind, hydro, and solar. Lastly, TransCanada's liquids pipeline system transports one-fifth of western Canada's crude oil exports to the U.S.

Since 2000 the energy infrastructure company has delivered an average annual return of 13%. In a little over 15 years, TransCanada has expanded its high-quality, long-life asset base from \$26 billion to \$64 billion.

And it doesn't look like it's slowing down. Currently, it has \$13 billion of projects in its pipeline that should keep the company busy until 2018. It also continues to advance \$45 billion of long-term projects to drive future growth.

Dividend

Most importantly, as TransCanada grows, it continues to reward shareholders. So far, it has increased its dividend for 15 consecutive years (not including this year). With its growth outlook, TransCanada anticipates growing its dividend by 8-10% on average through 2020. In the first quarter of 2016, it raised its quarterly dividend by 8.7% to 56.5 cents per share, totaling an annual payout of \$2.26 per share.

At \$50, TransCanada yields 4.5%. Since 2009 the highest yield it has offered was 5%. So, although TransCanada is worth buying now, it would be a better buy on dips, especially at a 5% yield.

Strong financial position

TransCanada is a top choice for conservative investors looking for a dividend investment in the energy space. It has a strong balance sheet and an A-grade credit rating, which allows it to easily access capital from the market if it needs it. Other than that, it can also access capital via the predictable cash flows from its businesses, committed credit facilities, and strategic use of its master limited partnership, **TC PipeLines, LP**.

Conclusion

From a valuation standpoint, TransCanada is fairly valued today. However, for dividend investors, the most important thing is the safety of its dividend. Its dividend is covered by its earnings and cash flows, and it expects its growth projects can sustain an average dividend-growth rate of 8-10% each year through 2020. So, TransCanada is a good dividend investment today and should be especially considered on dips to the 5%-yield level.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

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

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