



TransCanada Corporation: A Smart Play for Income?

Description

Many investors get rich because they recognize changing trends before everyone else does, or they're able to stomach the pain of a negative trend for much longer, allowing them to buy when the stock is incredibly cheap. One company that's in a negative trend and is cheap is **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)).

While I don't believe that TransCanada is going to double or triple your money, I do believe that it has a place in an income-generating portfolio. Because its business is relatively predictable, though this oil rout has certainly hurt it, it's able to carefully invest its money in growth while also rewarding investors.

It's predictable because it's a pipeline. The pipeline acts like a tollbooth. Oil companies pay a small per-barrel fee, and TransCanada transports the oil to the refinery.

But the question is, with oil prices down, am I crazy for suggesting this stock as a smart income play? It pays a yield of 4.47%, which comes out to \$0.56 per share, per quarter. Is that at risk?

I say no. There are a couple of reasons for that. Even with oil prices down, oil suppliers still need to do their job. Certainly, some suppliers will shut down, but not all of them. And the ones that survive will need to transport oil; that's where TransCanada comes in.

But more than that, TransCanada is making smart moves in other parts of the country and the world. By the end of 2018 it expects to complete \$13 billion in projects, which will help the company become more efficient and pipe more oil to its destinations. It also has an additional \$45 billion in projects that will take longer to accomplish, but should significantly help the company.

TransCanada won a US\$500 million contract that will allow it to build, own, and operate a natural gas pipeline in Mexico. As that country develops, it needs to expand its energy infrastructure, so TransCanada can leverage this into even larger deals.

But the ultimate deal that TransCanada made is the agreement to acquire **Columbia Pipeline Group** for US\$13 billion. In essence, this acquisition allows the company to double its pipeline network instantly. While it's certainly an expensive deal, this allows TransCanada to gain exposure to a couple

of the fastest-growing shale gas plays in North America.

All told, the company is making very smart moves. It ran into a lot of resistance due to the Keystone XL pipeline, but now that's behind it, it's acquiring and making new, smart deals.

The company expects the dividend to grow by 8-10% every year through 2020, so this may be the right time for income investors to start buying shares.

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1. NYSE:TRP (Tc Energy)
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