# Why TransCanada Corporation Makes a Good Long-Term Investment

## Description

**TransCanada Corporation** (TSX:TRP)(NYSE:TRP) is a great way for investors to gain exposure to the energy sector. The company has over 60 decades of experience operating as an energy infrastructure company. It aims to operate reliably and safely across its three business segments that are comprised of natural gas pipelines, liquids pipelines, and power generation.



TransCanada has an A-grade credit rating and runs a predictable, low-risk, regulated cost-of-service business that has limited exposure to commodity-price fluctuation and volume risks.

**Assets**

Over the years, TransCanada has amassed $65 billion of diversified energy infrastructure assets, including 67,300 kilometres of natural gas pipelines, 4,250 kilometres of liquids pipelines, and ownership or interests in 20 power generation facilities that have a capacity of 13,100 megawatts of power.

In fact, TransCanada supplies 20% of the natural gas used in North America to heat homes, run industries, and generate power. As well, the company transports roughly 20% of western Canada's crude oil exports to key refineries in the U.S. Midwest and Gulf Coast.

**Shareholder friendly**

TransCanada has increased its dividend for the 16th consecutive year this year. From 2000 to the present, it has increased its dividend at an average annual rate of 7%.

If you'd bought TransCanada shares in January 2000 and held them until now, your dividend would have grown almost 183% from an annual payout of $0.80 to $2.26 per share.

TransCanada has $13 billion of near-term projects that are targeted to go online by 2018, but the company also has its eyes set on the future with $45 billion of commercially secured longer-term projects. With a clear growth picture, TransCanada aims to grow its dividend at an average rate of 8-10% per year through 2020.

Currently, TransCanada yields 4.5%. If it increases its dividend by only 8% per year, investors buying today can still expect to sit on a yield on cost of 6.1% by 2020. So, if you earn $100 of dividends from TransCanada, you'll be earning $136 of dividends by 2020.

In 2015 the company managed to buy back seven million common shares, equating to 1% of the common shares. A lower share count implies that current shareholders get a bigger stake in the company and a safer dividend.

**Conclusion**

TransCanada has a strong track record of dividend growth, having increased its dividend for 16 consecutive years. If you've held TransCanada shares since 2000, you'll have enjoyed an average annual total return of 13%.

Going forward with a yield of 4.5% and its dividend expected to increase 8-10% per year, investors buying today can get an average annualized return of 12.5-14.5%, which is above the average market return of 7-10%.



That said, at $50, TransCanada is fully valued with a price-to-earnings ratio of 20. It would be a better buy at $45.20 per share with a 5% yield to start.

**CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

**TICKERS GLOBAL**

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

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