



## Is TransCanada Corporation a Smart Dividend Play?

### Description

With oil prices starting to bounce back again, there is growing interest in companies that service that sector. **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) is one of those companies because it operates pipelines all throughout Canada, helping oil companies move product to refineries and further along the supply chain.

Over the past couple of years though, TransCanada has been embroiled in a battle with Washington D.C. over approval of the Keystone XL pipeline. Despite many Republicans advocating for it, President Obama decided against approving it, which scared shareholders of the company.

However, for those who've held, this was only a small hiccup in TransCanada's long-term goals. By 2020, the company expects to have finished working on \$13 billion in projects that will provide additional revenue. On top of that, there are \$45 billion in long-term projects with the biggest being the \$15.7 billion Energy East project. Ultimately, this project will stretch 4,600 kilometres and will carry 1.1 million barrels of crude a day from western to eastern Canada.

Yet if Keystone XL has taught us anything, development work is always up in the air and it can take a long time to get new projects off the ground.

Because of that, the company is also expanding through acquisition. It announced plans to purchase **Columbia Pipeline Group**, a network that gives access to regions throughout New York, Pennsylvania, and south to the Gulf of Mexico for US\$13 billion. I fully expect this deal to provide significant returns for investors and should close sometime this year.

But you clicked on this article to talk about dividends. All of these projects and acquisitions are not worth anything to income investors if the dividend doesn't continue to flow like the oil in TransCanada's pipes.

Here's what you need to know...

First, the business model of TransCanada is predictable because it signs long-term contracts. Essentially, it acts like a toll booth. So long as oil companies need to get oil from point A to point B,

TransCanada will be able to charge a per-barrel fee.

The next thing you need to understand is that the company is one of Canada's top dividend-growth stocks on the market. Presently, it pays a yield of 4.17%, which a quarterly payment of approximately \$0.56/share. However, back in 2000 the dividend was only \$0.20 per share. That's significant growth over the past 16 years, and the good news is, it doesn't appear to be slowing down.

Management has the expectation to increase the yield by anywhere from 8% to 10% every year between now and 2020. As these other projects and acquisitions come online and the company gets a better idea of what revenue will be, I expect that the number will rise. Either way, by purchasing this stock today, you're effectively going to see at least four more years of dividend hikes, if not more.

Predictable earnings are something that income investors should cherish, and it's something TransCanada offers. Therefore, I believe investors should buy this stock today and hold it for years to come.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

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

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