Up +30%: What Should You Do With TransCanada Corporation?

Description

In all honesty, when I bought shares of **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) in the second half of August in 2015, I didn't expect it to rise more than 30% less than a year later.

My average cost basis was under $45 per share and the shares trade above $60 today. So, the shares have appreciated more than 33%. My yield-on-cost is 5%. In addition to the price appreciation, my total return is about 38%.

Now I'm in a dilemma. What should I do with the shares?

My original intention

Back in August 2015, I'd determined TransCanada's dividend was safe. It was covered by earnings and cash flow. Also, it has a high S&P credit rating of A-.

The simplicity of value-dividend investing is that after determining that a company's dividend was safe, I was free to add more shares as long as its shares remained depressed.

I bought TransCanada shares at a 4.5% yield and bought more when it fell lower and yielded 4.9%. I intended it to be a long-term holding.

When I'd bought the shares, TransCanada was trading at about 18 times its earnings, and it hasn't traded at those levels since 2010.

Fast forward to now

TransCanada now trades at 23.9 times its earnings. The company anticipates its growth projects can support a dividend-growth rate of 8-10% through 2020.

However, if something doesn’t go smoothly for the company, including its growth projects, thecompany will likely pull back to its normal multiple of about 19.4 or lower, which will be a price declineof 16% or more.

Additionally, TransCanada yields 3.75%, which is at the low end of its historical yield range.

In other words, now that TransCanada shares have appreciated so much in so little time (about 10 months), there’s little upside left for the shares. And there’s higher downside risk due to overvaluation.

What should investors do?

Investors looking to invest new money should consider looking elsewhere for a safer investment. TransCanada is a quality company, but it’s simply too expensive today.

TransCanada shareholders might still hold the shares for a stable, growing dividend if their priority is a growing income and if they care less about total return and price volatility in the short term.

As a value-dividend investor, I look for value first. And I believe there’s better value in the market where I can get better total returns and higher yields.

Investors need to look at their own situations and determine if there are better alternatives.

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2. TSX:TRP (TC Energy Corporation)

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kayng