TransCanada Corporation: Should You Buy This Stock Today?

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) has enjoyed a nice rally in 2016, and investors who missed the rebound are wondering if the stock is still an attractive pick.

Let's take a look at the current situation to see if TransCanada belongs in your portfolio.

Big project woes

TransCanada took a hit last year when President Obama rejected the company's Keystone XL pipeline.

The company initially applied for a U.S. permit to build Keystone in 2008 and expected the project to go ahead more or less as planned. That hasn't been the case as public opposition helped convince the current administration that the U.S. doesn't need an additional 830,000 barrels per day of Canadian oil running across the border.

The boom in U.S. production probably didn't hurt either.

With the U.S. election fast approaching, TransCanada is closely watching the race. A Clinton win would probably mean Keystone stays on the shelf, but a Trump win could put the project back on track.

Keystone's estimated costs have doubled to about US$10 billion, but the energy companies backing the pipeline still support the project.

Here in Canada, TransCanada is struggling to get its $15.7 billion Energy East pipeline built. Pushback from local and provincial stakeholders has stalled the process, and the recent resignation of National Energy Board (NEB) panelists has some analysts preparing the project's obituary.

Energy East would carry 1.1 million barrels per day of oil from Alberta to New Brunswick for export to overseas markets.

I don’t think the project is dead, but investors should expect further delays as a result of the latest setbacks.

Better news on other assets

TransCanada has a lot more on the go than Keystone and Energy East. The company recently purchased Columbia Pipeline Group for US$13 billion. The deal gives TransCanada an additional 5,400 km of natural gas pipelines, as well as prime assets in the coveted Utica and Marcellus shale plays.

Columbia also comes with a solid portfolio of commercially secured development projects that complement TransCanada’s existing development base. In fact, the portfolio now holds a $25 billion backlog of small- to medium-sized projects.

As these assets are completed and go into service, TransCanada should see revenue and cash flow increase enough to support annual dividend hikes of at least 8% over the next few years.

TransCanada currently pays a quarterly distribution of $0.565 per share for a yield of 3.7%.

Should you buy?

The stock certainly isn’t as cheap as it was earlier this year, but TransCanada still offers decent yield and a strong outlook for dividend growth.

The potential upside from a Keystone or Energy East approval is not priced in right now, so investors could see a substantial boost in the coming years if one of the mega projects gets the green light.

If you want a safe income pick and have a long-term investment strategy, TransCanada remains an attractive pick.

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