TransCanada Corporation vs Fortis Inc.: Which Is a Better Dividend Stock?

Description

Canadian investors are searching for reliable dividend stocks to help them meet their savings goals.

Let's take a look at **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) and **Fortis Inc.** (TSX:FTS)(NYSE:FTS) to see if one is more attractive today.

TransCanada

TransCanada had a rough 2015 with President Obama's rejection of the Keystone pipeline, but this year is proving to be better for investors.

What's up?

TransCanada recently acquired Columbia Pipeline Group for US$13 billion. The deal comes with strategic assets in the hot Marcellus and Utica shale plays, as well as 5,400 km of additional natural gas pipelines, including key infrastructure running from Appalachia to the Gulf Coast.

In addition, the company now boasts $25 billion in near-term development projects slated for completion in the next few years.

As these assets go into service, TransCanada should see cash flow increase enough to support dividend growth of at least 8% per year in the medium term.

Regarding the larger projects, Keystone is probably toast if Clinton wins the election, but a surprise Trump victory could put the pipeline back on the table. The other mega-pipeline, Energy East, remains stuck in the mud, but stakeholders continue to negotiate, and there is a chance the project will eventually go ahead.

The potential cash flow boost from the mega-projects isn't fully priced into the stock, so any positive news could send the shares higher.

In the meantime, investors pick up a nice 3.7% yield.

Fortis

Fortis is a diversified utility company with electricity generation and transmission assets, as well as natural gas distribution operations.

The company has grown significantly over the years with most of the recent investments focused on the United States.

Fortis purchased Arizona-based UNS Energy for US$4.5 billion in 2014 and just closed its US$11.3 billion acquisition of ITC Holdings Corp., the largest independent transmission company in the United States. American operations now account for 60% of the overall assets.

Fortis gets 94% of its revenue from regulated assets, making cash flow predictable and reliable. This is great news for dividend investors and is one reason the company has been able to raise the payout every year for the past four decades.

Fortis expects to boost the distribution by at least 6% per year through 2021. The current payout provides a yield of 3.8%.

Is one a better bet?

Both stocks are solid long-term holdings for dividend investors.

TransCanada offers better dividend-growth in near term and probably has more upside potential, especially if the energy sector has bottomed, but it also comes with higher risk if oil tanks again. If you can handle some volatility, go with TransCanada. Otherwise, conservative investors might want to pick Fortis.

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2. TSX:FTS (Fortis Inc.)
3. TSX:TRP (TC Energy Corporation)

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