



## Why TransCanada Corporation Is a Rare Name You Can Hold for 10 Years

### Description

A recent report from McKinsey had bad news for investors using a long-term, buy-and-hold approach—the exceptional returns of the past 30 years are unlikely to be repeated going forward. While the average real return on U.S. equities was 7.9% over the past 30 years, this is 1.4 percentage points above the 100-year average. Going forward, McKinsey sees equities returning only 4-5% annually over the next 20 years.

As a result, investors need to concentrate on names that can sustain higher returns than that over the long term. **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) offers this. The company provides a stable, diversified revenue stream with a large suite of long-term growth projects and the ability to finance them. As a result, TransCanada has visibility into its long-term growth. The company sees its dividend growing by 8-10% annually through to 2020.

This capacity to grow its dividend is not due to a boosting of the company's payout ratio (which is a fairly conservative 49% of free cash flow), but rather due to earnings and free cash flow growth from the company's \$25.4 billion in near-term capital growth projects (all of which will be in service by 2021). TransCanada expects its dividend to grow at the upper end of its 8-10% range.

Many analysts expect to see TransCanada boost its dividend-growth guidance out to perhaps 2025, which would give long-term investors security in both the company's long-term earnings growth and dividend prospects. Given the fact that interest rates are expected to remain historically low, and that an aging population is increasingly looking for income (the median age for baby boomers is 60 years), a nearly 4% dividend yield growing at 8-10% annually for five to 10 years will certainly support a premium multiple for TransCanada and its peers.

### Natural gas exposure supports TransCanada's growth

Investors can have faith in TransCanada's long-term growth and income due to a few factors, one of which is that the company is dramatically increasing its exposure to natural gas. Natural gas is going to have a larger role in the future of energy than oil, and natural gas infrastructure will become increasingly valuable.

According to **BP's** most recent energy outlook, natural gas is set to be the fastest-growing fossil fuel, growing by 1.8% annually compared to only 0.9% annually for oil. Natural gas will grow its share of the energy market over the next 20 years, while oil will see its share decline.

This period should see a large growth in imports of natural gas by China and Europe, and by 2035 liquefied natural gas (LNG) will exceed pipeline imports as the main form of imported gas. This a very positive growth trend for TransCanada, which has extensive pipeline access in the Montney region of Alberta (which will serve as a major source of export), as well as two major LNG pipelines awaiting approval to link Montney supply to proposed LNG facilities on the coast of British Columbia.

TransCanada's recent acquisition of Columbia Pipeline Group for US\$13 billion gives it extensive natural gas exposure to the Appalachia region (home of the Marcellus basin, which is the fastest-growing natural gas basin in North America), and the acquisition boosted natural gas pipelines as a percentage of EBIT from 54% in 2015 to 67% in 2018.

This gives TransCanada incumbency in the Marcellus region and positions it to secure additional growth projects as volumes from the region continue to grow.

### **TransCanada is the ideal long-term hold**

For long-term investors, TransCanada offers the right blend of stable revenues (over 90% of earnings come from regulated or long-term contracts), and growth (\$25.4 billion in confirmed near-term projects, and \$37 billion in potential long-term projects, combined with incumbency in key production regions, such as the Marcellus, Montney, and Mexico, that will increase the odds of new project approvals).

Combining this with a strong appetite by investors for low-volatility dividend payers will almost guarantee that TransCanada shares will continue their long-term upward trend over the next 10 years.

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