Is TransCanada Corporation a Smart Income Play?

Description

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If there is one company that looks to benefit immensely from President Trump, it's **TransCanada Corporation** (TSX:TRP)(NYSE:TRP). At the end of March, Trump signed an executive order effectively giving TransCanada permission to build the northern leg of its Keystone XL pipeline, a reversal from when President Obama was in office.

But even without Keystone, TransCanada was an appealing option for those that were looking for strong income-generating stocks. And, thanks to a major acquisition and a series of smart development projects, I expect that TransCanada will remain a strong income play for the next few years.

That acquisition was the takeover of Columbia Pipeline Group. This added a large portfolio of natural gas pipeline to the network, which helps TransCanada diversify its cash flow generation. What this also does is create a path from Canada down to the Gulf of Mexico, which is important for international shipping purposes.

What this acquisition also offers is an increase in commercial secured projects. TransCanada and Columbia Pipeline bring a combined $23 billion in near-term projects. In the long-term, the combined entities bring $45 billion in projects. Should they all come online, cash flow is expected to increase significantly.

Yet, TransCanada has a series of other projects that are just as interesting to me that don't get discussed all that often.

First is the Mexican network it operates. It currently has pipelines operating just north of Mexico City as well as around Guadalajara. However, its portfolio of pipeline projects in development and under construction is even larger. According to TransCanada's website, by 2018, the company will operate seven natural gas pipeline systems that account for US$5 billion in investment.

Second is its power generation network. It has 10,700 MW of generation capacity from a variety of sources including natural gas, nuclear, hydro, wind, and solar. What I like about power generation is that the cash flow is regulated, which means that the company can comfortably predict how much money it'll bring into the bank each quarter.

Whether it is oil or gas transportation or the energy generation, this business model is, for the most, highly predictable. That makes it the perfect income stock.

The company currently yields 3.93%, which is good for $0.625 per share. However, one of the details in the Columbia Pipeline acquisition press release was the suggestion that it would support and potentially augment management's goal of increasing the dividend by 8-10% per year between now and 2020. With the amount of money to be invested in new projects, I anticipate that these increases won't be difficult to achieve.

So what should you do?

I recommend buying TransCanada. With Keystone XL back online and a wide variety of other projects on the way coupled with the predictable business model that it operates in, TransCanada is one of those buy-and-hold income stocks. And with increases coming over the next few years, this investment should be one that beats the market and strengthens your portfolio.

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