Now Is the Time to Add This 4% Yield to Your Portfolio

Description

Trump's energy policy has been a boon for **TransCanada Corporation** (TSX:TRP)(NYSE:TRP). His desire to reduce the regulatory overhang for the oil and gas industry as well as make the U.S. energy independent has boosted the outlook for North America's energy patch and oil stocks. This makes now the time for investors to consider TransCanada because even after rallying 5% for the year to date, it remains attractively valued.

Now what?

It was Trump's decision to reverse the Obama administration's ruling which blocked the Keystone XL pipeline; his approval of the project in late March has been especially beneficial for TransCanada. The US$8 billion pipeline development will be a transformational project for TransCanada.

If TransCanada completes the pipeline as planned, it will boost its capacity to transport petroleum liquids by up 830,000 barrels of oil daily, giving earnings a significant lift. The tremendous increase in capacity will make it a crucial link between Alberta's oil sands and Canada's primary export market for crude, the U.S.

Nonetheless, this isn't the only reason to invest in TransCanada.

TransCanada also owns one of North America's largest natural gas pipeline networks, which spans eastern Canada to the U.S. Gulf Coast and is responsible for transporting roughly 25% of continental demand for gas. Demand for access to this network from natural gas producers can only grow.

You see, natural gas consumption is expected to grow substantially in coming years. Not only is it an essential source of energy for many homes across North America, but it is now the fuel of choice for power generation. This is because it burns significantly cleaner than coal and is now among the cheapest sources of electricity.

In the U.S. alone, it is estimated that up to a further 37 gigawatts of natural gas–fired power plants will come online between now and 2018.

Natural gas prices have almost doubled over the last year to be US$3.27 per million British thermal units, and this has triggered a flurry of activity among gas producers. The U.S. natural gas rig count is nearly double what it was a year ago, and Canada's has more than doubled. The surge in output this will create is set to spark greater demand for TransCanada's pipeline network, ultimately leading to higher earnings as the volumes transported grow.

TransCanada is also focused on expanding its natural gas–transportation capacity in Mexico, where it has US$2.5 billion of projects under development; once completed, these projects are forecast to more than double TransCanada's Mexican EBITDA.

More than US$20 billion of natural gas and liquids pipeline projects under development, which are scheduled for completion between now and 2020, will cause TransCanada's capacity to grow significantly.

In mid-2016, TransCanada completed the US$10.2 billion purchase of Columbia Pipeline Group Inc., which is expected to deliver US$250 million in benefits annually by 2018.

Then there is the portfolio of 17 power plants which have 10,700 megawatts of capacity, making TransCanada one of the largest generators of electricity in North America. That capacity comes from gas-fired plants, nuclear power, and renewables such as wind and solar, meaning that TransCanada is not exposed to the downside associated with coal-fired plants. The relatively unchanging demand for electricity means that cash flows from these operations are generally quite stable.

So what?

The extensive portfolio of projects under development will lead to a healthy bump in earnings, which will support TransCanada's planned 8-10% dividend growth and cause its stock price to appreciate. While patient investors wait for that to occur, they will be rewarded by TransCanada's sustainable dividend which yields a tasty 4%.

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