Does TransCanada Corporation Belong in Your Dividend Portfolio?

Description

A that dividend is secure and projected yearly growth are two things dividend investors clamour for.

With the effects of compounding, acquiring shares when a company yields 4%, reinvesting the dividends in more shares, and then benefiting from yearly 8% increases is exactly how you strengthen your dividend portfolio.

TransCanada Corporation (TSX:TRP)(NYSE:TRP) offers those opportunities.

With shares trading where they are, investors can comfortably pull in a 4% yield, which is good for a quarterly distribution of $0.625. Thanks to the company's dividend-reinvestment and share-purchase plan, investors can automatically have that money reinvested at a 2% discount off the share price. And due to growth expectations, management projects to increase the dividend by 8-10% per year through 2020.

This is the perfect situation because you're consistently compounding your growth and accumulating a larger position. The earlier years might not be all that impressive, but as time goes on, you will earn even greater dividend payouts.

But what about the business? Where are the stability and growth coming from?

That has everything to do with the natural gas and liquids pipeline businesses, power generation, and storage facilities that TransCanada operates. Each of these business lines provides predictable earnings because they are either regulated, like power generation, or they come with long-term contracts, like the pipeline and storage business.

In May, TransCanada reported Q1 2017 results, and they were significant. Net income was $643 million — up from $252 million in Q1 2016. Russ Girling, TransCanada's president and CEO, said in the release that the earnings were "primarily due to strong performance across our Natural Gas Pipeline business, including Columbia which was acquired in mid-2016."

The Columbia Pipeline Group acquisition took place in 2016 and cost the company US$13 billion. The deal added natural gas assets in both the Marcellus and Utica regions along with various infrastructure projects through the United States.

And going forward, the combined companies have $23 billion in near-term capital projects. These are expected to boost cash flow on a yearly basis, so the company is able to pay that growing dividend.

However, there are other opportunities on the table, which include the Keystone XL pipeline project and the Energy East project. The former has received approval from President Trump, but the latter, which could carry 1.1 million barrels of oil per day, is still waiting for approval.

Both projects would be big wins for the company.

The perfect time to buy TransCanada would have been back in the fall/winter of 2015, when President Obama rejected the Keystone XL pipeline and the markets reacted poorly.

It's difficult to find opportunities that provide a 4% yield, a solid reinvestment plan, and expected 8-10% yearly increases to the dividend. Those increases are likely to be much greater should other major projects gain approval and come online.

I recommend buying this stock and immediately reinvesting any of the dividends into more shares. And you're in luck. The ex-dividend date to receive the next dividend is June 28. That means you have to have purchased shares by June 27 (the day BEFORE the ex-dividend date) to receive them. You could immediately begin the process of compounding your returns.

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Date
2025/08/18
Date Created
2017/06/26

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