



## Can TransCanada Corporation Deliver on 10% Yearly Dividend Increases?

### Description

If there is one thing that dividend investors love more than anything else, it is receiving a dividend increase. It makes us feel like we are reaping the benefits of being long-term investors.

When it comes to **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)), investors should get incredibly excited. Due to smart acquisitions as well as a massive portfolio of organic growth projects, management is looking to increase the dividend by 8-10% per year through 2020.

Consider that today you'll receive \$0.625 per quarter. If the company increases the dividend by 10% every year through 2020, you can expect an additional three raises between now and then. That means you'll be sitting on an \$0.83 per quarter dividend, over 20 cents more than what you're receiving today.

That's the value of dividend increases.

However, just because a company says it's going to increase the dividend, can we expect them to follow through on their promise?

I am quite bullish on TransCanada thanks to the Columbia Pipeline Group acquisition that took place in 2016. TransCanada paid US\$13 billion in this deal, adding natural gas assets in the Marcellus and Utica regions. The company also picked up assets throughout the United States. This adds to an already strong network of pipeline assets that allow the company to generate predictable revenue.

Being in the pipeline business is like operating a toll road. You get to charge a car the same amount of money irrespective of whether the driver is paying \$2 per litre or \$4 per litre of petrol. And the same goes for the pipeline business. TransCanada charges a flat per-barrel fee to transport the oil and gas for producers irrespective of the price of said asset. And because these deals are on long-term contracts, TransCanada doesn't have to worry about fluctuations in the short term.

Couple that predictable revenue with the growth strategies, and you've got a pretty solid business. TransCanada has \$23 billion in near-term capital projects. As each of these projects come online, the cash flow TransCanada brings in will increase, supporting its ambitious dividend-increase strategy.

There are the two major projects that investors have been waiting for news about. Keystone XL, which was first denied by President Obama, has since gained approval from President Trump. And the Energy East project, which has the capacity to carry 1.1 million barrels of oil per day, is just waiting for government approval. If approval is provided, the project will be an immediate boost to revenue.

TransCanada's lesser-known business is its power-generation business. It owns a portfolio of power plants across North America. Like the pipeline business, power generation can be regulated and contractual, which adds additional predictable revenue to the business. Although it's a small piece of the company, it's still a necessary component.

TransCanada has a stable business model, a massive portfolio of organic growth projects, and a dividend that has the potential to increase by up to 10% per year through 2020. And, frankly, I believe that this company can continue boosting the yield for years after 2020, so long as there is additional demand for oil and natural gas.

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