



Buy TransCanada Corporation for the 4% Yield

Description

Sometime in the future, oil is going to be obsolete. Countries around the world are investing more in solar and wind energy, and there are now cars that drive without an ounce of gasoline.

But I don't think oil will be obsolete any time in the foreseeable future. And as long as there is demand for oil, there will be oil companies looking for a way to get it from point A to point B in an efficient and consistent fashion.

And that's where **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) comes into play.

TransCanada is an energy transportation business with \$86 billion in total assets. Originally, the company was focused primarily on oil transport, but as it was looking to diversify, it acquired Columbia Pipeline to add considerable U.S. natural gas to its network.

Looking at the second-quarter earnings, this acquisition appears to be paying off quite handsomely. In 2016, TransCanada only earned \$188 million in its U.S. natural gas pipelines. Fast forward to today, and TransCanada has earned \$401 million thanks to the network Columbia provides.

Mexico also played into TransCanada's strong quarter. Its pipelines in Topolobampo and Mazatlan both started operating after the end of Q2 2016, so there was a big jump from \$41 million in 2016 to \$120 million in 2017.

In total, revenue was up 16.9% to \$3.2 billion, with earnings up 80% to \$659 million. That's not bad, if you ask me.

Going forward, I expect growth to continue thanks to the \$24 billion in near-term projects sitting in its development pipeline. Add in an additional \$40 billion in medium- to long-term projects, and you've got a company that has the potential for incredible growth. That is, of course, if TransCanada can get the major projects launched.

On October 5, TransCanada announced that it would no longer proceed with its major Energy East Pipeline and Eastern Mainline projects. Its reason? It was believed that an increased review from the

National Energy Board would increase costs too significantly. This is rough for TransCanada, because it would've been a major cash flow generator for the company.

Nevertheless, management believes that the near-term projects are more than sufficient to generate earnings and cash flow growth significantly enough to hit management's target of 8-10% increases to the dividend per year through 2020.

That's why TransCanada belongs in your portfolio. The stock currently offers a strong 4% yield, which is good for \$0.625 per quarter. However, with management looking to boost it over the next few years, your income will be far greater than it is today. Not only is the dividend generous, but it's also safe, as 95% of TransCanada's business is contractual, so management can predict how much cash flow will come into the business.

I'm bullish on companies with renewable energy sources. However, oil still has many years ahead of it, with the peak potentially to come. Therefore, I believe investors should own a piece of the core infrastructure that makes it possible to get oil from point A to point B. And that infrastructure is TransCanada.

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