Time to Buy TransCanada Corporation Following its Recent Sell-Off?

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) is yet another victim of a rising interest rate environment, in which high-yielding equities are increasingly being sold off in favour of growth names or those without exposure to fixed-income securities, which have seen yields rise of late. Shares of TransCanada currently trade more than 12% below their 52-week high, providing investors with an interesting decision: should they pick up shares at its current discount or wait as the valuation decline potentially continues?

With Canadian government bonds increasing by approximately 40 basis points (0.4%) over the past month or so, investors now have a greater reason to buy and hold government bonds as a safe, boring, but almost guaranteed way of earning a return on their cash. As government bond yields rise, the corresponding attractiveness of equities with higher yields than government bonds is reduced by a narrowing margin between the two asset classes.

That being said, TransCanada remains one of my top picks for energy infrastructure companies today, given its growth potential relative to its peers.

With regulatory support for the company's Keystone pipeline providing a buffer to interest rate-related losses which may otherwise have been greater, TransCanada has a solid bull case for growth for the first time in a while. As fellow Fool contributor David Jagielski has recently noted, TransCanada has secured capacity contracts for approximately 500,000 barrels of oil per day to be transported through the Keystone pipeline, making the business case for owning this pipeline much more attractive.

Accordingly, TransCanada has indicated its improved outlook on future growth will enable the company to continue to increase distributions to shareholders, at least in the near to medium term. The company's management team recently provided guidance on their dividend-growth rate, indicating that a double-digit, or nearly double-digit, growth rate in the company's dividend distribution will continue through 2021. The 8-10% proposed annual dividend increase would meaningfully increase the yield investors can expect to receive over time, making TransCanada a very attractive play for long-term investors looking for a combination of income and growth.

Bottom line

In addition to the dividend-growth rate of 8-10%, analysts are expecting TransCanada to provide earnings growth in the 8-10% range as well, correlating dividend increases to the company's organic growth profile. In the pipeline space, TransCanada remains one of the largest and best options for investors to consider as a long-term hold at current levels. I expect to see the pullback in TransCanada's share price to potentially continue for some time and would suggest investors consider shares of TRP on any significant weakness moving forward.

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chrismacdonald