TransCanada Corporation: The Dividend Is on the Rise, Making This a Buy

Description

Investing in infrastructure can sometimes be a very profitable play, especially when it's integral to the transportation of energy like oil or natural gas. And that's what makes **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) such a unique opportunity — you're owning the pipeline infrastructure required to power people's cars or heat people's homes.

But just because the concept of the business is smart, does that make TransCanada a smart investment? Let's take a look ...

A big part of TransCanada's success is the success of the oil and natural gas companies, which comes down to the price of the asset. If the price is high, there is more generation, which, in turn, necessitates transportation. As there's only a finite amount that can be transported, demand means greater returns for TransCanada.

We've mentioned for some time now that TransCanada is giving mixed signals. On one hand, the company generated a handsome $861 million profit last quarter compared to a $358 million loss a year prior. On the other hand, we don't yet know whether the Keystone XL pipeline will come online. This has been immensely controversial and, in my opinion, bad press for the company.

The stock has also been struggling. My fellow Fool writer, Chris MacDonald, has talked a bit about how the rising interest rate environment has depressed stocks like TransCanada, and I think he's right. With incredibly low interest rates, the only way for investors to earn income was to buy dividend stocks like TransCanada. With interest rates rising, there are other opportunities on the market to earn income. This results in the sale of stocks to move to these different opportunities.

Fortunately, I believe TransCanada is a great play if you're looking for income over the next few years, here are two great reasons.

First, the development pipeline is really deep. It has $24 billion in commercially secured near-term projects. As these projects move from development to online, they will add more cash flow to the business. These near-term projects may not, individually, be home runs, but these are smaller, organic plays that will help the business

Second, management has been very shareholder friendly and wants to pay consistently growing dividends. Specifically, management is looking to boost the dividend by at least 8% per year for the next few years. It demonstrated this on February 15 by increasing the dividend by 10.4%. If those near-term projects come online, the likelihood of these dividend increases becomes much greater.

Here is where I stand on TransCanada. As a business, it seems to ebb and flow quite a bit. It's beholden to the quarterly news cycle that can often frustrate long-term investors. However, the quarterly dividend is worth the turbulence. Frankly, earning a 4.44% yield is great, especially when you know that the dividend is only going to increase from here. My advice is simple: buy and forget TransCanada. Let the dividends accrue, or, for an even better idea, automatically reinvest them back into more shares of TransCanada. That's how you really build wealth.

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