This Energy Giant Just Boosted its Dividend by Over 10%

Description

After being weighed down for some time by the uncertainty surrounding the disputed Keystone XL pipeline, energy infrastructure company **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) has finally returned to growth. The contentious pipeline was permitted by President Trump within days of taking office.

However, TransCanada has lagged behind peers **Enbridge Inc.** and **Pembina Pipeline Corp.** because of the distractions created by the Keystone XL permitting process and other controversies. It has nonetheless emerged from 2017 with solid results, demonstrating the company's considerable potential and its ability to unlock value for investors.

Now what?

TransCanada reported record 2017 results with net income rising to be an incredible 24 times higher than a year earlier. EBITDA surged by 11% year over year, and operating cash flow rose by 3%. That considerable improvement in TransCanada's bottom line was driven by U.S. corporate tax reform, the monetization of its U.S. Northeast power business, and the sale of its Ontario solar assets.

Higher natural gas and liquids volumes on TransCanada's pipeline network were a key driver of the significant lift in earnings. TransCanada's U.S. and Mexican natural gas pipelines businesses both reported a 48% increase in earnings because of higher volumes transported and lower operating costs. This strong growth will continue over the course of 2018. Higher oil prices have sparked a flurry of activity among North American energy companies, as they move to significantly ramp up drilling activity and boost production.

Last week, the North American rig count reached its highest point since April 2015, and oil production continued to grow. That bodes well for TransCanada, as pipeline constraints continue to restrict the volume of crude that can be transported, leaving it well positioned to benefit from greater production volumes and higher demand.

This, along with the Columbia Gas and Gulf projects coming online during the year, as well as the completion of the Napanee power plant in Ontario, will give earnings a further boost. Lower U.S.

corporate income tax rates will also help to drive a stronger bottom line for TransCanada.

TransCanada has almost $23 billion in near-term projects that are slated to commence operations between now and 2020, as well as $24 billion in long-term developments, which will boost the capacity of its network and hence earnings.

That means there is considerable earnings growth ahead.

What makes TransCanada extremely appealing for investors is that its infrastructure is critical to North America’s energy industry and consumers. The shortage of transportation and storage infrastructure combined with growing consumption of natural gas means that strong demand will exist for the utilization of its assets.

TransCanada’s diversification into electricity generation, which has seen it become one of the largest private power generators in Canada with 6,100 megawatts of capacity, will further support solid earnings growth.

When these factors are combined with steep barriers to entry and the inelastic demand for energy, TransCanada’s earnings are virtually guaranteed. As economic growth expands, demand for energy will rise, giving earnings a further boost.

So what?

One of the most appealing aspects of TransCanada is its growing dividend. At the end of 2017, management hiked the dividend by 10% to $2.76 per share, commencing in March 2018. The company has an enviable history of growing its dividend, having hiked it for the last 17 years straight to see it yielding just over 4%. That tasty dividend coupled with TransCanada’s solid growth prospects and wide economic moat means that, along with it being down by almost 9% over the last year, it is an attractive investment.

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Date
2025/09/12
Date Created
2018/02/21
Author
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