Should TransCanada Corporation Be in Your TFSA Retirement Fund?

Description

Canadian savers are searching for top dividend stocks to add to their TFSA portfolios.

The strategy makes sense, especially for those who are using the TFSA to set some cash aside to complement their pension payments once they enter retirement.

Why?

The TFSA protects all distributions and capital gains from the taxman. This means the full value of dividends can be invested in new shares, and when the time comes to cash out, any increase in the stock price is yours to keep.

Let's take a look at **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) to see if it deserves to be on your buy list.

Earnings

TransCanada reported comparable Q4 2017 earnings of $719 million, or $0.82 per share, representing a nice increase over the $626 million, or $0.75 per share, the company earned in Q4 2016. For full year 2017, TransCanada generated $2.7 billion in comparable earnings, as opposed to $2.1 billion the previous year.

Asset growth

TransCanada spent US$13 billion in 2016 to acquire Colombia Pipeline Group. The deal added strategic assets in the growing Marcellus and Utica shale plays, as well as important gas infrastructure running from New York to the Gulf Coast.

In addition, the company picked up a nice backlog of capital projects. TransCanada is currently working through $23 billion in near-term developments that should be in service by the end of 2021.

Beyond that time frame, TransCanada is evaluating $20 billion in long-term projects, including

Keystone XL, the Bruce Power life extension, and the Coastal GasLink development.

Finally, TransCanada should see other organic growth opportunities emerge, such as the recently announced $2.4 billion NGTL System expansion.

Dividends

As the new assets begin to generate revenue, TransCanada anticipates strong enough cash flow growth to support annual dividend increases of at least 8% through 2021. Any positive news on the long-term projects could create an opportunity for management to upgrade the payout guidance.

The company raised the dividend by more than 10% for 2018, and investors should feel comfortable with the dividend-growth outlook. TransCanada has increased the payout for 18 consecutive years.

At the time of writing, the stock provides a 5.3% yield.

Risks

Rising interest rates have investors concerned that cash flow available for distributions could get squeezed at the debt-intensive energy infrastructure companies. In addition, there are fears that an exodus out of go-to dividend stocks could occur in favour of fixed-income alternatives. The broader energy infrastructure sector as a whole has taken a hit as a result, and TransCanada's share price is currently down to $52 from $61 a year ago.

Higher rates will mean more expensive debt costs for TransCanada and its peers, and some investors could shift funds to safer investments, but the extent of the pullback might be overdone. It will be a long time before investors see a GIC that offers the yield you get from TransCanada today.

Should you buy?

TransCanada provides above-average yield with a dividend-growth outlook that should be reliable. If you have a buy-and-hold investing style, it might be worthwhile to add a bit of TransCanada to your TFSA retirement portfolio while the stock is out of favour.

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