An Awesome Dividend Stock Priced at a Bargain

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) stock has shaved off ~16% in the last 12 months. So, how does that make it an awesome stock to consider? Well, the A-grade energy infrastructure company is now cheaper and offers a juicier dividend yield.

Is there really a buying opportunity in TransCanada right now?

At ~$53.20 per share, TransCanada trades at a price-to-earnings ratio (P/E) of ~17, while its long-term normal P/E is ~20, and its five-year normal P/E is ~21.7. Last year, the company increased its earnings per share by ~11%.

For the next three to five years, analysts estimate that TransCanada will grow its earnings per share by at least 7.3% per year.

TransCanada has been awarded an S&P credit rating of A-, so one might argue that the company should be worth a premium multiple. At worst, the stock is fairly valued.

However, the analyst consensus from **Thomson Reuters** thinks the dividend aristocrat is actually severely undervalued. It has a mean 12-month target of $69.30 per share on the stock, which represents an impressive upside potential of ~30%.

Is TransCanada's dividend safe?

At the recent quotation, TransCanada offers a dividend yield of almost 5.2%, which is at the high end of its 10-year yield range. The payout ratio is estimated to be ~85% based on its adjusted earnings per share and ~62% based on its cash flow.

Both payout ratios are a little higher than they have been in the past few years, but not excessively so. Therefore, TransCanada's dividend should be intact.

Moreover, TransCanada's dividend-growth history is 17 years strong. Management last hiked the dividend by 10.4% in the first quarter. Through 2021, management aims to increase the company's dividend by 8-10% per year.

How is TransCanada growing?

TransCanada has $23 billion of near-term growth projects and +$20 billion of medium- to long-term projects, which should add to the growth that's experienced by its existing operations.

Investor takeaway

TransCanada is an A-grade company that employs a low-risk business model, which generates ~95% of its earnings before interest, taxes, depreciation, and amortization from regulated assets or long-term contracts. Thus, its operations generate stable cash flow.

Coupled with a sustainable payout ratio and a $43 billion capital plan to boost its growth, the company's dividend should be intact. TransCanada offers a ~5.2% yield and should be able to grow its dividend by 8-10% per year through 2021.

Furthermore, the stock is currently attractively priced with analysts estimating upside of ~30% in the next 12 months. Altogether, the stock has ~35% total returns potential in the near term.

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kayng