TransCanada Corp. Stock: Is it Time for Dividend Investors to Buy?

Description

Income investors are searching for top-quality stocks with growing dividends and above-average yields . That's often hard to find, but the downturn in the market is finally providing retirees and other dividend seekers a chance to lock in some impressive returns from industry-leading companies.

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

Earnings

TransCanada reported 2017 comparable earnings of $2.7 billion, or $3.09 per share, representing a nice improvement over the 2016 results of $2.1 billion, or $2.78 per share.

The solid results came from strong performances in the company's existing assets as well as the addition of $5 billion in completed projects during the year.

Growth

TransCanada spent US$13 billion to acquire Columbia Pipeline Group in 2016. 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. Columbia also provided a nice boost to the capital plan.

In fact, TransCanada is working its way through $23 billion in near-term projects that should be completed by the end of 2021, including the recently announced $2.4 billion NGTL expansion. Investors should see additional small projects pop up, as the company evaluates opportunities across the business lines, which includes assets in Canada, the United States, and Mexico.

Beyond 2021, TransCanada has an additional $20 billion in larger developments under consideration, including Keystone XL, the Bruce Power life extension, and Coastal GasLink.

Dividends

TransCanada plans to raise the dividend by at least 8% per year through 2021, as the new assets are completed and go into service. If any of the larger, long-term projects get the final green light, management could extend the dividend-growth guidance.

TransCanada recently raised the dividend by more than 10% for 2018, representing the 18th consecutive annual increase to the payout, so investors should feel comfortable with the outlook.

At the time of writing, the stock provides a yield of 5.1%.

Risks

TransCanada's stock price is down amid the broader sell-off in the energy infrastructure sector.

What's going on?

The market is concerned rising interest rates could boost borrowing costs and put a pinch on cash flow available for distributions. In addition, there is a theory that funds will begin to shift out of go-to dividend names and into fixed-income alternatives, such as GICs.

These are valid points to consider when evaluating TransCanada, but the pullback in the share price from $64 to the current level of $54 might be overdone.

Should you buy?

Investors who buy today can pick up a rock-solid 5% yield with steady dividend growth on the horizon. Even if the stock price remains at the current level, TransCanada should be an attractive buy-and-hold pick for an income-focused portfolio today.

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