1 of the Best Ways to Get Stable Income

Description

Believe it or not, investors can get stable income from the volatile energy space. One of the best ways to do so is by investing in large energy infrastructure companies with strong balance sheets and reliable cash flows. One energy infrastructure company that looks particularly stable is **TransCanada Corporation** (TSX:TRP)(NYSE:TRP).

A stable stock

It's not that TransCanada stock isn't volatile — no stock is immune to volatility. However, whenever the stock faltered, it rose again. In the past 15 years or so, TransCanada stock's two-largest corrections were about 25%. The declines were much milder than the +40% drop the Canadian market and other stocks had experienced during the last recession in 2008 and 2009.

Stable, growing dividends

Most important, TransCanada has shown that it has the ability to generate stable, growing earnings and cash flows in the long run, as well as maintain a sustainable payout ratio to keep its growing dividend safe.

TransCanada is one of the top 15 dividend growth companies in Canada. It has increased its dividend per share for 17 consecutive years with dividend growth that has outpaced inflation. Additionally, it's nice to see a positive trend with higher dividend growth in recent years. Its one-, three-, five-, and 10-year dividend growth rates are 10.6%, 9.2%, 7.3%, and 6.3%, respectively.

Currently, TransCanada offers a quarterly dividend of $0.69 per share, which equates to an annual payout of $2.76 per share. At below $55 per share, TransCanada offers an above average yield of ~5%. According to **Bank of Nova Scotia**'s estimation on TransCanada's free cash flow generation, TransCanada's payout ratio is estimated to be below 62%.

Why the pullback?

TransCanada stock has pulled back ~15% from its 52-week high. Some would blame rising interest rates. First, the cost of operations is increasing, as the business will likely have to pay more interest on its debt. Second, investments that pay interest will become more attractive and potentially compete with dividend stocks such as TransCanada for investors' money. However, TransCanada's yield still more than double the 10-year government bond yield.

Another reason for the dip could be that the stock was fully valued before. There was little upside in the near term, and investors simply decided to take the profit. Others soon followed and a dip ensued.

Investor takeaway

TransCanada is a rare gem in the volatile energy space. It offers a yield of ~5% and is set to grow its dividend by ~8-10% per year. The recent pullback makes TransCanada more attractive with the analysts' consensus from **Thomson Reuters Corp.** estimating a 12-month upside of ~26% on the stock, which implies near-term total returns of nearly 31% is possible.

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