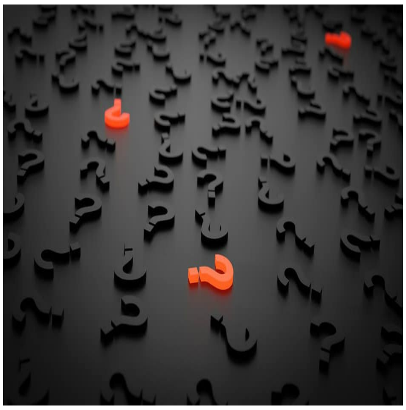

Is TransCanada Corporation a Top Canadian Dividend Stock for Energy Exposure in Your RRSP?

Description

Canadian savers are searching for reliable dividend growth stocks to put inside their self-directed RRSP portfolios, and the recent pullback in the market is providing some interesting opportunities.

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 Q1 2018 net income of $734 million, or $0.83 per share, compared to $643 million, or $0.74 per share, for the same period last year. Comparable earnings came in at $0.81 per share, representing a 21% increase on a year-over-year basis.

This occurred despite the sale of the company's Northeast power assets. The company filled the gap with $7 billion in new assets that went into service in the past year, including the expansion of the NGTL Pipeline and the Canadian Mainline systems, as well as the Gibraltar, Rayne XPress, Leach XPress and Cameron Access projects in the U.S. natural gas pipeline business. On the liquids pipeline side, TransCanada wrapped up two projects in Alberta.

Dividend outlook

TransCanada continues to work through its $21 billion near-term capital program, with roughly $11 billion in projects targeted for completion this year. As a result, management expects revenue and cash flow to increase enough to support dividend hikes of at least 8% per year through 2021.

Beyond that period, TransCanada has $20 billion in longer-term developments under consideration, including Keystone XL, the Bruce Power-Life Extension Program, and Coastal GasLink. If just one of these projects gets the green light, investors could see an upward revision to the dividend growth guidance.

TransCanada’s current quarterly dividend of $0.69 per share provides an annualized yield of 5%.

Risks

The stock has come down amid the broader selloff in the energy infrastructure sector due to concerns that rising interest rates could tighten cash flow available for distributions. The market is also anticipating a rotation of funds out of dividend stocks and into fixed-income alternatives.

These are valid points to keep in mind when evaluating TransCanada and other stocks in the sector, but the pullback looks overdone. At the time of writing, TransCanada traded for $54.50 per share compared to $64 per share one year ago.

Should you buy?

TransCanada’s existing dividend should continue to grow at a healthy clip over the near term, and the odds are pretty good that investors will see an extension of the guidance given the strength of the long-term development portfolio.

If you have some cash on the sidelines and are searching for a reliable dividend-growth stock to buy and own for decades, TransCanada looks attractive today.

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