A Canadian Dividend Champ for New RRSP Investors to Hold for Decades

Description

Canadian savers are searching for top dividend stocks to put inside their self-directed RRSP portfolios.

The strategy makes sense, especially when the distributions are invested in new shares to harness the power of compounding. Over time, investors can turn modest initial investments into impressive retirement funds.

Let's take a look at **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) to see why it might be an interesting pick today.

Earnings

TransCanada generated Q1 2018 net income of $734 million, or $0.83 per share, compared to $643 million, or $0.74 per share, in Q1 2017. The addition of $7 billion in new assets over the past year helped offset a revenue drop from the sale of the company's U.S. Northeast power assets.

Growth

TransCanada has grown significantly through a combination of strategic acquisitions and organic developments, and that trend continues.

Two years ago, TransCanada bought Columbia Pipeline Group for US$13 billion in deal that added important facilities in the growing Marcellus and Utica shale plays, as well as key pipeline infrastructure running from New York to the Gulf Coast. Columbia also provided a nice boost to the capital program.

TransCanada is currently working through $21 billion in near-term commercially secured projects, with about $11 billion targeted for completion in 2018. Beyond that time frame, the company is evaluating an additional $20 billion in developments, including Keystone XL, the Bruce Power life extension, and Coastal GasLink.

Most of the company's infrastructure is located in Canada and the United States, but TransCanadaalso has projects in Mexico, where opportunities exist for long-term growth.

Dividends

The strong development program should result in steady dividend growth. In fact, as new assets go into service, TransCanada expects revenue and cash flow to increase enough to support annual distribution hikes of at least 8% through 2021.

A decision to go ahead with any of the longer-term projects could lead to an upward revision of the dividend-growth guidance.

TransCanada pays a quarterly dividend of $0.69 per share for a yield of 5%.

Risk

The stock has pulled back over the past year amid concerns rising interest rates could trigger a shift of investor funds out of dividend stocks in favour of fixed-income alternatives. In addition, rising rates make debt more expensive, which could reduce cash flow available for distributions.

Public and government opposition to major oil pipeline projects should also be considered when evaluating this stock.

Opportunity

While interest rate concerns are valid, TransCanada's drop from $63 per share to $55 over the past 12 months might be overdone.

Why?

The company has a solid portfolio of developments projects with attractive dividend-growth guidance through 2021 and opportunities for continued increases beyond that time frame.

Some income investors might start to move out of dividend stocks, but it will be a while yet before we see GICs paying 5%, so the shift should be limited.

The bottom line

If you are looking for a reliable dividend-growth pick for your RRSP, it might be worthwhile to add TransCanada to your portfolio while the stock remains out of favour.

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