Dividend Investors: Is it Time to Put TransCanada Corporation (TSX:TRP) in Your RRSP?

Description

Canadians are searching for reliable dividend stocks to add to their self-directed RRSP portfolios.

The strategy makes sense, especially when the distributions are used to purchase new shares. This sets off a powerful compounding process that can turn a modest initial investment into a nice nest egg over time.

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, in the same period last year.

Growth

Legacy assets are providing steady revenue and cash flow, while new developments continue to drive growth.

TransCanada put $7 billion in gas and liquids pipeline projects into service last year, including Grand Rapids and Northern Courier liquids pipelines in Alberta, and the expansion of the NGTL and Canadian Mainline Systems. South of the border, TransCanada wrapped up the Gibraltar, Rayne XPress, Leach XPress, and Cameron Access projects.

The company is currently working through its $21 billion near-term capital program, with about $11 billion scheduled for completion in 2018 and the remainder expected to be in service through the end of 2021. Beyond that time frame, TransCanada has $20 billion in larger developments under consideration, including Coastal GasLink, the Bruce Power life extension, and Keystone XL.

Management also sees further organic growth opportunities within the company's extensive North American energy infrastructure network. TransCanada added strategic assets when it bought Columbia Pipeline Group for US$13 billion in 2016 and is expanding its presence in Mexico, where revenue growth helped contribute to the strong Q1 results.

Dividends

TransCanada has a long track record of increasing its dividend, and that trend should continue. In fact, as the new developments go into service, the company expects revenue and cash flow to increase enough to support annual dividend growth of at least 8% through 2021.

The current quarterly payout of $0.69 per share provides an annualized yield of 5%.

Risks

TransCanada's share price has taken a hit over the past year, amid the broader pullback in the energy infrastructure sector. The market is concerned rising interest rates could push investors to dump go-to dividend stocks in favour of fixed-income alternatives.

Rising rates also increase borrowing costs, which could reduce cash flow available for distributions.

Should you buy?

Rate fears are important to consider when evaluating TransCanada, but the sell-off from $64 per share to $54 over the past seven months looks a bit overdone.

The company has a solid development portfolio that should support steady dividend growth over the medium term. At the current price, the stock looks attractive, and investors could see a rally on any news that one of the larger long-term developments is getting the green light.

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