Buy TransCanada Corporation (TSX:TRP) Today to Lock In a 5% Yield

Description

Canada's providers of infrastructure and midstream services to the energy patch have sharply lagged the rally in crude, which now sees West Texas Intermediate (WTI) trading at over US$72 a barrel and up by 25% for the year to date. Among them is **TransCanada** (TSX:TRP)(NYSE:TRP), which saw its stock plunge sharply in recent weeks to be down by over 15% since the start of the year. This has created considerable speculation that now is the time to buy TransCanada.

Now what?

A key reason for TransCanada's decline in recent weeks was the ruling of a U.S. district court judge who ordered a review of the controversial Keystone XL pipeline's revised route through Nebraska. This, however, shouldn't deter investors from considering TransCanada as an investment because the U.S. State Department recently gave the pipeline development the green light.

As a result, TransCanada announced that it would start construction in 2019 on what is shaping up to be a critical piece of infrastructure for Canada's oil patch. When the Keystone XL pipeline, which is projected to carry 830,000 barrels of Canadian crude daily, eventually commences operations, it will ease the bottlenecks, which have been a key trigger of the deep discount applied to Canadian heavy crude.

Despite the controversy surrounding the Keystone XL pipeline, TransCanada has a long history of unlocking value for investors. For the second quarter 2018, comparable earnings grew by 13% year over year to $0.86 per share. This solid growth was primarily driven by the additional income generated by $7 billion of projects coming online since the first quarter 2017 and U.S. tax reform, where President Trump slashed the corporate tax rate from 35% to 21%.

TransCanada generates over a third of its earnings from its U.S. natural gas pipelines business, so the significant reduction in the U.S. corporate tax rate has delivered a windfall for the company. Increased earnings from TransCanada's U.S. business and its liquids pipelines operations caused by series of pipeline expansion development coming into service over the last year further bolstered revenue.

This solid growth should continue, even if the Keystone XL pipeline remains mired in lawsuits because

TransCanada has almost $28 billion in near-term projects under construction that will enter service between now and 2021. That — along with growing demand for pipeline capacity from upstream oil producers — will give earnings a solid lift over the remainder of 2018 and into 2019.

You see, Canadian oil producers are boosting capital spending to feverishly ramp up drilling activity to take advantage of higher oil and its increasingly optimistic outlook, which sees some analysts predicting that crude will reach US$100 a barrel before the end of 2018.

TransCanada also has a portfolio of $24 billion worth of longer-term projects, which will lead to sustain higher earnings post-2021.

Revenue growth over the remainder of 2018 will also be supported by lower expenses and increased sales from TransCanada's U.S. natural gas pipeline's business, higher volumes on the Keystone pipeline system, and greater revenues from its Mexican pipelines operations.

So what?

TransCanada's solid history of earnings growth and its ability to consistently unlock value has supported its ability to increase its dividend at a solid clip. Since 2000, TransCanada has hiked its annual dividend 18 times to give it a very juicy yield of just over 5%. Importantly, with a payout ratio of 78%, which should fall as earnings rises, the dividend appears sustainable. TransCanada rates as a solid play to take advantage of higher oil. Its growing portfolio of projects, the majority of which will come online by 2021, will support higher earnings and further dividend hikes, which will ultimately give its market value a solid lift.

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