



## Should You Buy TransCanada Corp (TSX:TRP) for the 5% Dividend Yield?

### Description

**TransCanada Corp** ([TSX:TRP](#))([NYSE:TRP](#)) may not be the best-known stock on the TSX, but it's one of the most controversial. The company's Keystone XL pipeline has faced criticism from environmental advocates, who have accused the company of being an oil spill hazard. The most recent hurdle facing the pipeline was a judicial block from a judge in Montana.

Still, TransCanada is a profitable and growing enterprise with a lot going for it—most notably a 5.19% dividend yield. The question is whether the stock is worth buying for dividend income when its biggest project is being delayed. To answer that question, we need to look at what's going on with the pipeline.

### Keystone concerns

Keystone is a four-phase pipeline project of which three phases are operational. The fourth phase, the [Keystone XL pipeline](#), is the one that's causing problems for TransCanada. Keystone XL is meant to run from Alberta to Nebraska, where it would ship upwards of 500,000 barrels of oil a day for a period of 20 years. So far, Keystone XL is projected to cost \$7 billion—more than the first three phases of Keystone combined.

Keystone XL has been facing political opposition in the U.S. for years. In 2015, the U.S. state department rejected TransCanada's bid to build the pipeline. This was later overturned by the Trump administration. More recently, a judge in Montana blocked the pipeline's construction for failing to comply with federal environmental regulations. As a result of the Montana decision, Keystone XL is currently up in the air, which means that several billions of dollars in investment by TransCanada may go for naught.

### The bright side

TransCanada is a thriving company regardless of what happens to Keystone XL. Keystone is already pumping many tons of oil a day to the Midwestern United States with no signs of slowing down. And the project's success can be seen in TransCanada's financials. In its most recent quarter, it had earnings of \$1.02 per share, compared to \$0.70 a year before. That's a whopping 48% year-over-year growth. Additionally, the company also has a very strong profit margin of 25.9% and a 13.33% return

on equity. So even if the company bleeds money from Keystone XL for years, it's a great business.

## A generous dividend

Now we come to the main question:

The dividend.

It's all well and good that TransCanada has [a 5% dividend yield](#). But is it sustainable?

According to the numbers, yes. TransCanada is posting phenomenal earnings growth, which means that the extra income it has to pay its shareholders is always going up. The company has had some losing quarters, but those were mainly because of one-time expenses; operating income shows a steady increase.

Further, the payout ratio is 72%, which is a little on the high side, but completely sustainable. Finally, management has a consistent track record of raising the dividend, which means that that 5% yield could go even higher.

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