



## If You Don't Buy TransCanada (TSX:TRP) Stock Today, You'll Kick Yourself Later

### Description

If you follow the best investors alive today, most have pretty similar advice for building a rock-solid portfolio. They advise you fill it with the best companies you can find, all while paying a reasonable valuation for these assets.

Like a lot of things, this is easy to do in theory but hard to pull off in real life. Just what exactly constitutes a terrific company, anyway?

The number one thing I look for in a potential investment is a company with a sustainable competitive advantage. I want to make sure the company can't be disrupted by somebody with a couple billion dollars. Once it passes that test, I then move onto the valuation part. Finally, because I like getting paid to wait, the stock must pay a dividend.

There are only a select few Canadian stocks that pass that test. **TransCanada Corporation** ([TSX:TRP](#)) ([NYSE:TRP](#)) is one that checks off all the boxes today. Here's why you should be loading up on TransCanada stock today.

### A strong, protected business

One thing I learned from the recent Alberta election is that folks in Canada's energy capital are really upset with Ottawa and the federal government's inability to get new pipelines built. Newly-elected Premier Jason Kenney's big appeal to many voters is he promised to fight like mad to get Alberta's oil to worldwide markets.

Or, as I like to tell people — it's almost impossible to get an intra-provincial pipeline approved these days. Wouldn't that make existing pipelines all the more valuable?

TransCanada knows this all too well. In 2013, the company proposed an ambitious new pipeline going across Canada called Energy East, which would link oil producers in Alberta and Saskatchewan with refinery operators in New Brunswick. After intense backlash from vocal minority groups in Ontario and Quebec, the project was officially shelved in 2017.

The company is even having problems with expanding its Keystone XL project through the Midwest United States. First President Obama vetoed the project. President Trump brought it back to life, but it was then challenged by protesters and court battles. It appears to have a clear path forward today, but this could easily change.

The point of all of this is simple. TransCanada's network of more than 91,000 kilometres of natural gas pipelines and 5,000 kilometres of oil pipelines is increasingly valuable if regulators drag their feet every time new pipelines are proposed. That's very good news for shareholders.

Then there's the company's power business, which generates some 6,600 megawatts of energy, enough to power six million homes. Approximately half of that comes from nuclear power, with the other half from natural gas.

As support for nuclear power grows, so should that part of TransCanada's business. I see a future where TransCanada can expand its nuclear operations into the United States.

## A decent valuation

It's easy to be bullish on pipeline prospects in a today's world. But are investors paying too much for these assets, especially after shares are up more than 31% thus far in 2019?

Hardly. Traditional earnings aren't the best metric to use when valuing pipelines, as these assets get depreciated down quickly. Instead, TransCanada uses distributable cash flow as a representation of its true earnings power. Distributable cash flow hit nearly \$5.9 billion in 2018, which works out to \$6.52 per share.

TransCanada stock trades at \$63.94 at writing, which puts shares at under 10 times distributable cash flow. That's a very reasonable valuation for the equity.

Another quick and easy way to value TransCanada stock is to look at the dividend yield. After a recent dividend hike — the company's 19th consecutive year of increasing its payout — the stock's \$3 per share payout now represents a yield of 4.7%. Investors should ideally hold out for a 5% yield, but that likely won't happen without major market weakness.

## The bottom line

TransCanada stock definitely checks off all the boxes. It has a great sustainable advantage and it won't be easily disrupted by a hot new startup. Shares even trade at a very reasonable valuation right now, with a nice dividend yield too. Go ahead and load up on shares today. Your future self will be glad you did.

### CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

## **TICKERS GLOBAL**

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

## **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## **Category**

1. Dividend Stocks
2. Energy Stocks
3. Investing

## **Date**

2025/08/23

## **Date Created**

2019/05/01

## **Author**

nelsonpsmith

default watermark

default watermark