



What to Expect When TransCanada Reports Earnings This Week

Description

TransCanada ([TSX: TRP](#))([NYSE: TRP](#)) is set to release its quarterly earnings on Friday. Most investors are concentrating on another disappointing delay of the company's Keystone XL pipeline. The company needs to prove to shareholders that it can find alternative expansion avenues.

Let's take an early look at what has been happening at TransCanada over the past three months and what we're likely to see in its upcoming report.

Stats on TransCanada

Analyst EPS Estimate \$0.59

Change From Year-Ago EPS \$0.52

Revenue Estimate \$2.60B

Change From Year-Ago Revenue -15.60%

Earnings Beats in Past 4 Quarters 1

Source: Yahoo! Finance

Can TransCanada deliver for shareholders this quarter?

Analysts have becoming increasingly pessimistic in recent months about TransCanada's earnings prospects, cutting their full-year forecast by a dime to \$2.46 per share. But this has done little to

discourage dividend-hungry investors, given that the stock is up 9% over the past three months.

TransCanada's controversial Keystone XL pipeline received another piece of bad news this quarter. Earlier this month the U.S. State Department announced that it will hold off on making a final approval decision on the 830,000 barrels per day pipeline proposal until the project clears legal hurdles in Nebraska. The news likely pushes back any decision on the project until after the November midterm elections.

Predictably, this sent TransCanada shares plunging. However, the far more worrying development is that Canada's energy sector barely flinched on the announcement. Five years ago, Keystone was seen as critical to the development of the oil sands. Today, the country's top producers are finding other ways to get their product to market.

Suncor ([TSX: SU](#))([NYSE: SU](#)) has cobbled together a system of rail transit and space on new and existing pipelines. This has resulted in impressive financial results. On Monday, the oil sands behemoth posted record operating profits and cash flow of \$1.73 billion and \$2.88 billion respectively.

Cenovus ([TSX: CVE](#))([NYSE: CVE](#)) is betting big on crude by rail to work around pipeline logjams. The company is leasing 200 rail cars with plans to begin shipping 30,000 barrels of oil per day of bitumen by the end of the year. Cenovus is also investigating use of diluent recovery units in order to improve the economics of rail transit further.

TransCanada is watching a major opportunity slip through its fingers. While Keystone would certainly be a positive development for the industry, it's no longer critical. The industry is moving on.

TransCanada needs to find other avenues for expansion. However, thanks to booming production in Alberta and shale output in the United States, oil pipelines will remain the company's key earnings driver for the foreseeable future.

Investors should listen for a status update at the company's proposed Energy East pipeline. This project involves converting 4,500 kilometres of its Canadian Mainline pipe from natural gas to crude oil to reach refineries in Montreal, Quebec City, and Saint John. The project could begin deliver 1.1 million barrels per day of Western Canadian crude, single handily replacing Keystone, as early as 2017.

TransCanada is also building out its Alberta pipeline system. This is a collection of smaller routes that feed into energy hubs like Edmonton. The company has \$3.4 billion in secured projects to connect growing oil sands production to 2.5 million barrels per day of long haul export pipelines.

Foolish bottom line

In TransCanada's earnings this week, watch for discussion on alternative growth opportunities for the company. With the odds of a Keystone approval growing longer with each passing month, TransCanada will need to find new pipeline projects to fuel its earnings growth.

CATEGORY

1. Investing

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1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:SU (Suncor Energy Inc.)
3. NYSE:TRP (Tc Energy)
4. TSX:CVE (Cenovus Energy Inc.)
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Date

2025/09/14

Date Created

2014/05/01

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