Why TransCanada Corporation Investors Shouldn’t Fret About Keystone XL

Description

Investors in **TransCanada Corporation** (TSX: TRP)(NYSE: TRP) are patiently waiting for the big shoe to drop — Keystone XL.

The pipeline, which will transport crude from Alberta to oil refineries in the midwestern and southern regions of the United States, has been on the table for better than four years. With each passing delay, investors get a little bit more nervous. Will the environmentalists vocally opposed to the project force President Obama to veto the deal?

At this point, it appears the ultimate decision will happen at some point after the November mid-term elections. However, it could possibly even be delayed until early 2015. These delays have to be excruciating for everyone involved, especially after a Department of Energy panel already ruled that the White House should let the project proceed.

While Keystone XL gets all the attention, TransCanada is quietly working on other new projects, ones that have the potential to nicely add to the bottom line. They’re the real reason investors should take a look at the stock.

Ongoing projects

In January, the company completed its Gulf Coast pipeline, which transports crude oil from Oklahoma to other refineries on the gulf coast. If Keystone XL ever gets approved, it will eventually connect up with Gulf Coast to deliver Canadian crude to U.S. refiners.

The company has also entered into two separate partnerships worth a combined $7.7 billion that will connect Alberta’s and British Columbia’s natural gas fields with the Pacific coast, leading the way for significant exports to finally start heading overseas. By the time 2020 rolls around, the company expects natural gas to contribute approximately 45% of EBITDA.

Another big project planned is the $12 billion Energy East pipeline. Energy East will convert more than 3,000 km of existing natural gas pipelines into oil transport, and build 1,700 km of new pipelines in Quebec and New Brunswick. When finished, the project will be capable of transporting more than 1.1

million barrels of crude oil per day from oil fields in Alberta and Saskatchewan across the country, for use there or for export to Europe.

Finally, TransCanada plans to spend $3.5 billion on new pipelines in Alberta, helping to alleviate the bottleneck of crude transport there. If both Keystone XL and Energy East end up becoming a reality, there are a lot of places Alberta crude could end up.

Growth ahead

Based on all these new projects, the future looks pretty bright. By 2020, management figures that its asset base will grow to $80 billion, compared to just $54 billion today. That’s a growth rate of nearly 7% annually — not bad for a boring pipeline company.

Earnings will also improve significantly. Based on the same projections, the company plans to nearly double EBITDA from $4.9 billion in 2013 to $9.5 billion in 2020. Assuming the company keeps the payout ratio constant, investors would see their dividends go from a 3.3% yield to a 6.4% yield, plus any capital appreciation. That’s some solid growth potential.

Activist investor potential?

There’s another potential upside possibility for TransCanada. Pundits predict that it could possibly be taken over or an activist investor could pressure management to raise its dividend.

According to an article in *Barrons*, TransCanada is much more conservative with its dividend than its U.S. rivals, choosing to pay out only a third of operating cash flow. The other two thirds are retained for future growth projects. If an activist investor managed to convince the company to pay out 80% of its cash flow, shares could rise significantly as investors snatch up the higher yield.

I’m a believer in Keystone XL. I think the U.S. government will end up approving the project. However, even without it, there’s plenty going on with TransCanada. Now could be a good time to buy, and I’d back up the truck if Keystone XL doesn’t get approved.

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