



4 Reasons TransCanada Corporation Is Still a Strong Buy

Description

TransCanada Corporation ([TSX: TRP](#)) ([NYSE: TRP](#)) is best known for its ongoing battle to get the Keystone XL pipeline project approved. While Keystone is certainly an important project, investors should look at the entire TransCanada picture when considering whether they should buy the stock.

Here are four reasons why I think TransCanada is a compelling buy for long-term investors.

1. Diversified assets

TransCanada Corporation is much more than a natural gas pipeline business. The company owns a diverse blend of energy assets that provide investors with a long-term and stable source of free cash flow.

Here is a look at TransCanada's pipeline, storage, and power plant assets:

Pipelines drive the core operations of TransCanada's business. The company operates approximately 57,000 km of wholly owned natural gas pipelines in Canada, the U.S., and Mexico. TransCanada also holds a part-ownership position in nine others.

The great thing about the natural gas pipeline business is that the revenue comes from transporting the gas, not selling it, so the company's earnings are not greatly affected by volatility in the natural gas market.

TransCanada is North America's third-largest natural gas storage provider, with a massive 407 billion cubic feet (Bcf) of storage capacity. Gas storage is a big concern for natural gas producers because the gas has to be held somewhere until it is shipped to consumers.

TransCanada's energy division operates 21 power plants in Canada and the U.S. The power generation assets were the weak link in the Q2 2014 earnings report, but investors should see better numbers coming from this area of the business moving forward.

In the Q2 2014 report to shareholders, TransCanada CEO, Russ Girling said, "Although weak Alberta

power prices and maintenance outages at Bruce Power weighed on second quarter results, both businesses are expected to produce stronger results in the future due to positive Alberta power market fundamentals and higher plant availability at Bruce Power.”

2. Huge project backlog

The Keystone XL crude oil pipeline is certainly an important project for TransCanada, and I believe the project will eventually get approved. In the meantime, investors should look to the existing war chest of other projects that are in the works.

TransCanada currently has a staggering \$38 billion of commercially secured projects in development or under construction. The reason this is compelling for investors is that these assets are backed by long-term contracts or cost-of-service business models, meaning the cash flow required to justify the capital investment is already booked.

The shift to liquids pipelines is of particular interest. TransCanada’s management team continues to plan for high-demand markets. The capital program includes \$21 billion in liquids pipelines, \$15 billion in natural gas pipelines, and \$2 billion allocated to power-generation assets.

3. Latin American opportunities

TransCanada is looking beyond Canada and the U.S. for growth opportunities. By 2016, the company expects to have a total investment in Mexico of about \$2.6 billion. The Mexican government is keen to expand its natural gas pipeline network and TransCanada should be a major player moving forward.

Colombia is another fast-growing market for pipeline companies and TransCanada should be able to leverage its experience in Mexico to tap into opportunities in the South American country.

4. Dividend growth

For dividend growth investors, TransCanada is as good as they come. The company has increased its dividend every year since 2003, and the current payout of \$1.92 yields about 3.2%.

As the capital projects reach completion and go into operation, investors should benefit from a boost in free cash flow, and I expect TransCanada to continue to increase the dividend on a regular basis.

The bottom line

For long-term investors looking for both capital growth and dividend increases, TransCanada is a solid choice for every portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
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