



## Is TransCanada Corporation Still a Safe Investment?

### Description

Shares of **TransCanada Corporation** ([TSX: TRP](#))([NYSE: TRP](#)) have dropped 18% since hitting a record high of \$63 on September 19. Most investors are scratching their heads trying to figure out what is going on. After all, pipeline companies are supposed to be reliable, safe investments. Is this just a case of throwing the baby out with the bath water in a turbulent market?

Let's take a look at TransCanada and see if you should get out, wait, or add some shares to your portfolio right now.

### Asset diversity

The transportation of natural gas represents the largest part of TransCanada's business. The company owns and operates about 57,000 km of natural gas pipelines in Canada, the U.S., and Mexico.

The important thing investors should consider about the pipeline business is that the revenue comes from transporting oil and gas, not selling it. For the most part, earnings are not affected by volatility in the price of the commodity.

TransCanada is the third-largest natural gas storage provider in North America. Record gas production in the U.S. means TransCanada's facilities are in high demand and command a premium rate. The company is capable of storing more than 400 billion cubic feet (Bcf) of natural gas.

Power generation is a growing part of TransCanada's asset portfolio. The company already operates 21 power plants. In Q2 2014, the power division was the weak link in TransCanada's earnings but the company expects a strong rebound in the division as Alberta power prices increase and maintenance work at the company's Bruce Power facility is completed.

### Capital project pipeline

Keystone XL and Energy East get a lot attention in the media. At some point, I think these pipelines will get built, but the thing investors should realize is that TransCanada is in great shape without them.

The company currently has \$38 billion of commercially secured capital projects under development. These assets are backed by long-term contracts or cost-of-service agreements. This is important for investors because it means the cash flow needed to generate the required return on investment is already guaranteed.

The abundance of oil, gas, and natural gas liquids in the U.S. and Canada means producers have to get their product to international markets to obtain the best prices. TransCanada's project backlog reflects the opportunities in this area, specifically its Merrick Mainline Pipeline. The project will enable gas producers to send product to the Kitimat LNG Terminal in British Columbia. The liquified natural gas will then be shipped to lucrative Asian markets. Merrick should be in operation by 2020. TransCanada's total capital program includes \$21 billion in liquids pipelines, \$15 billion in natural gas pipelines, and \$2 billion in power infrastructure.

### **Growing dividends**

TransCanada is about as good as it gets when investors are looking for reliable dividend growth. The current capital projects will all be completed and in service by 2020. Management plans to raise the dividend proportionately with the increase in cash flow generated by the new assets.

TransCanada pays a dividend of \$1.92 per share that yields about 3.6%.

The company trades at about 22 times earnings, which is lower than its peers. Some analysts believe shareholders could get much a better multiple if the different business units were operated as independent companies. A move by a big hedge fund to pressure management to split up the company would probably send the stock higher.

The drop in oil prices is putting pressure on some of TransCanada's customers, but volatility in the commodity markets shouldn't impact TransCanada's earnings that much. I think the recent weakness in the stock should be seen as a good buying opportunity for long-term investors.

### **CATEGORY**

1. Energy Stocks
2. Investing

### **TICKERS GLOBAL**

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

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