



Could TransCanada Corporation Shares Rise to \$75?

Description

After weeks of rumours, **TransCanada Corporation** ([TSX: TRP](#))([NYSE: TRP](#)) is being targeted by activist investors from the United States. In a letter released today, Sandell Asset Management (based in New York City), claimed that TransCanada would be worth \$75 per share if it were broken up, well above the \$56 opening price today. As a result, the pipeline company's shares are up over 2% (as of this writing), just a couple days before its analyst conference in Toronto.

So would a breakup really allow TransCanada stock to trade \$20 higher? Below we take a look at the possibility.

The breakup

According to Thomas Sandell, TransCanada can maximize value by doing two things. First, the company can spin off its energy assets. There's a strong argument for this. TransCanada's energy segment, as it stands, "obscures stable pipeline cash flows", as put by Mr. Sandell. And once spun out, the newly formed energy company could target investors and analysts "who best understand power generation risks." This should allow the energy company to trade at a much higher valuation than TransCanada currently does.

Step two is even more significant: Mr. Sandell wants TransCanada to "fully employ its MLP immediately to catch up with its major North American infrastructure competitors who have already benefited for years." In other words, Mr. Sandell wants TransCanada to transfer its U.S.-based assets into a tax-efficient master-limited partnership. TransCanada has already been doing this, but at a pace much too slow for Mr. Sandell.

Again, there's a strong argument for making such a move. Some of the comparable partnerships trade at more than 30 times EBITDA (earnings before interest, tax, depreciation, and amortization), a big premium to TransCanada's valuation.

Will this happen?

First, the bad news. U.S. activist investors have targeted Canadian companies before, and rarely get a

welcoming response. Just look at **Canadian Pacific**, **Agrium**, or **Telus**. At a certain point, one has to wonder if national pride plays a role. Making matters worse, Sandell Asset Management holds a very small stake in TransCanada – only \$36 million. So if the company ignores Mr. Sandell, it's hard to imagine him putting up much of a fight.

But there is some good news. As mentioned, TransCanada has already been using its MLP in the United States, so Mr. Sandell simply wants the company to do more of the same thing. That's not too far-fetched at this point.

So should you buy TransCanada shares?

There's a strong case to be made for TransCanada stock. The company already has a dividend yield of 3.4%, even after the increase in today's share price. This dividend is also much safer than most of the company's peers in the energy sector.

So with Mr. Sandell's suggestions, there's that much more upside.

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Date

2025/07/23

Date Created

2014/11/19

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