Are TransCanada Corp. Investors in Line for a Pay Day?

Description

Last week, **TransCanada Corp** (TSX: TRP)(NYSE: TRP) revealed its plans for the next six years of capital projects. In total, TransCanada is projecting to spend $46 billion between now and 2020. This is a staggering amount of money that could unlock the country's energy potential. Unfortunately, the majority of this earmarked cash is tied to projects that are currently being blocked or investigated by provincial, state, and federal governments.

In addition, the recent drop in crude prices has resulted in a sense of short-term uncertainty in the entire energy industry. While projects are not likely to be cancelled, delays could be possible.

Fortunately TransCanada has about $13 billion in smaller projects which are slated to enter service by 2017. This includes projects such as expansions on the existing Canadian Mainline gas pipeline that runs from Alberta to Quebec, and the NGTL natural gas pipeline in Northern Alberta.

However, it will take more than these small projects to maintain investor confidence. Investors have been keeping an eye on the three big projects that continue to remain just over the horizon.

Prince Rupert Gas Transmission Project

The first of these three projects is the proposed 900km Prince Rupert Gas Transmission Project which would carry natural gas from northern B.C. to the proposed Pacific NorthWest LNG facility on Lelu Island. Here we have a government that is willing and ready to get gas moving, but major corporate partners such as **Royal Dutch Shell PLC** and **Petronas** have yet to build any of the infrastructure needed to justify the pipeline.

Keystone XL

The second stalled project is the famed "pipeline to nowhere", a.k.a. the Keystone XL pipeline, which would bring 830,000 boe/day of oil sands crude to refineries in the Gulf of Mexico. This project has seen delay after delay in the American legislature, including another setback last week. If the current political climate in the U.S. persists, this project could remain on the shelf until 2017.

Energy East

Last but not least is the $12 billion Energy East project, which will carry 1.1 million barrels of crude from Alberta to Atlantic Canada. This would allow oil sands producers to sell to refineries in Quebec, which are currently dependent on supplies from overseas.

The issue drawing the ire of provincial governments and local gas distributors is that an existing natural gas pipeline in Ontario and Quebec would be retrofitted to alternate between natural gas and crude oil. The fear is that this natural gas pipeline is already barely keeping up with winter demand, and any interruption in supply would lead to gas shortages and surges in pricing.

A call to division

On top of all of these proposed and delayed pipelines there is a renewed push from activist investors to break up the company. The loudest voice appears to be a U.S. hedge fund called Sandell Asset Management, which believes that the company would be worth $75 per share under its vision of the company.

Its proposed changes would be to separate TransCanada's pipeline and energy segments into separate entities and to speed up the rate that TransCanada is moving its U.S. assets into its master limited partnership **TC PipeLines LP.** The fear here is that these plans would make a quick buck for the hedge fund but severely cripple TransCanada's cash flow and capital project schedule. Another victim could be TransCanada's dividend, which has just been raised to $1.92 per year with a yield of 3.3%.

In all investors are left in a very murky situation because as even if two of these three major projects receive approval, any long-term gains could be negated by a successful activist investor intervention.

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