

Should You Put TransCanada Corporation in Your Portfolio?

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)) has long been a favourite among Canadian dividend investors. The ongoing saga with the northern leg of Keystone XL and the devastating rout in the energy sector has investors wondering if they should buy, sell, or simply hold the stock.

The company is primarily known for its natural gas pipeline system, but the explosion of oil, natural gas, and gas liquids production in the North American shale plays is providing opportunities for TransCanada to add liquids pipelines to its asset base.

Let's take a look at the current situation to see if TransCanada should hold a spot in your portfolio.

Earnings

TransCanada just reported its results for the fourth quarter of 2014. The company announced net income of \$458 million, a 9% increase over the same period in 2013. Full-year earnings were \$1.7 billion or \$2.42 per share compared to \$1.7 billion in 2013.

TransCanada's Canadian Mainline, Keystone Pipeline System, and Mexican pipelines all delivered higher earnings in the fourth quarter. During the year, TransCanada put \$3.8 billion of new assets into service.

Growth opportunities

The market tends to put most of its focus on pipeline projects in Canada and the U.S., but TransCanada is also in a great position to drive growth in the Latin American countries. Mexico is rapidly expanding its pipeline networks and TransCanada is already a key operator in the country.

Colombia also presents significant growth opportunities. Improved security and political stability in the country mean foreign companies are now considering investing in long-term infrastructure projects as Colombia develops its vast oil reserves.

Dividend

TransCanada continues to reward shareholders. The company just announced an 8% increase in the dividend. The new payout of \$2.08 yields about 3.6%. TransCanada expects another \$12 billion of small-to-medium sized projects to be completed and in service by the end of 2017. This should ensure continued growth in the distribution as free cash flow increases.

Project backlog

TransCanada added \$7 billion in new projects to its backlog in 2014. The company now has a capital program that includes \$46 billion of commercially secured projects backed by long-term agreements from tier-one clients. The large infrastructure portfolio should provide shareholders with sustainable

growth in earnings, cash flow, and dividends.

Asset spin-off

Investors could also benefit from a break up of TransCanada based on its different asset groups. The company has a large power-generation business that could unlock significant value if it were moved into a separate company. The idea has been bouncing around the analyst water cooler for a while. Any indication from TransCanada of a move in this direction would likely boost the stock price.

Should you buy?

The noise around the mega projects is holding back the stock. Keystone XL's northern leg is still dragging along and I figure the project has a 50% chance of going ahead, given the rising costs.

The \$12 billion Energy East Pipeline looks more promising, and will probably get built. Canadian oil sands producers, more than ever, need to get their product to the coast so it can be refined or shipped to international markets. The pipeline will have the capacity to move 1.1 million barrels of oil per day and TransCanada has already secured long-term contracts from western Canadian producers to cover more than 90% of the maximum transport load. The long-term value of Energy East is probably not priced into the stock right now.

TransCanada is a great company for investors to simply buy and forget for decades, but further volatility in the oil market might present a better buying opportunity in the near term. I would rate TransCanada a hold right now.

CATEGORY

1. Energy Stocks
2. Investing

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