

Is a Keystone “Work Around” Enough to Get You Excited About TransCanada Corporation?

Description

Another week has passed and another setback for the seemingly doomed Keystone XL pipeline has hit the headlines. **TransCanada Corp.** ([TSX:TRP](#))(NYSE:CRP) has agreed to submit to an injunction that temporarily prevents it from appropriating land in Nebraska.

Delays to the Keystone XL pipeline have come so frequently that investors are beginning to become immune to the notion. Yet at the same time, investors are looking to TransCanada to provide a short-term solution to alleviate the current export bottleneck in Alberta.

To that end, TransCanada has activated the southern leg of the Keystone XL pipeline connecting Oklahoma and Texas. Another project is the Upland pipeline, which is slated to begin moving crude from the Manitoba portion of the Energy East pipeline to North Dakota by 2018.

These are small samplings of what TransCanada is looking to accomplish with its trans-border crude capabilities, but it is still far behind what it thought it could accomplish by 2015.

Riding the rails

As a short-term solution TransCanada is seriously considering launching its own oil-by-rail segment in the next quarter or two. That would mitigate the worry of delayed shipments due to overbookings with **Canadian National Rail** and **Canadian Pacific Rail**, which also ship product from its competitors.

For TransCanada, the financial factor is a moot point as it is quickly approaching the 1.2 barrels per day mark of capacity, which must be moved. This need to ship crude would outweigh the cost to develop its own rail capabilities.

Q4 results coming through the pipeline

Even with Keystone XL north still not approved, the southern leg of the pipeline has helped push up revenues in the fourth quarter to \$2.6 billion, up from \$2.3 billion last year. Overall, TransCanada had an impressive 2014 with total revenues reaching \$10.1 billion, up from \$8.7 billion in 2013. Luckily the drop in oil prices happened late enough in the year to cushion its books, leaving some uncertainty for 2015.

TransCanada remains confident that the oil sands can remain viable at the \$50 per barrel mark and that many top companies in the region still plan on raising production. The question of available cash has a happy answer for investors. TransCanada ended 2014 with \$4 billion in net cash on hand and posted a net income of \$1.74 billion, up from \$1.71 billion. Some budgetary adjustments went into fueling this modest net income growth as capital spending dropped to \$3.5 billion from \$4.2 billion in 2013.

As a bonus to investors, TransCanada raised its quarterly dividend by 8% to \$0.52, bucking the trend of major Canadian firms gutting their dividends to survive 2015.

Hope gained or lost

For TransCanada the low oil prices of 2015 will have a less predictable impact than it will have on oil producers. For example, Alberta is drowning in stored crude that has to be shipped, which will protect TransCanada's revenues. On the other hand, the low oil prices will give added motivation to pipeline proponents to halt any further capital development. These low prices are a cyclical issue that will balance out in the near future and neither consumption nor a desire to be independent of OPEC show signs of waning.

TransCanada's strategy of operating its own in-house rail business will allow it to satisfy its customers in the short-term. Flowing crude to the U.S. in this manner will also allow TransCanada to grow its revenues and available cash reserves so that if Keystone is approved, it will be ready to act.

Having the cash in hand will also allow TransCanada to act swiftly if an opportunity such as an Alberta to Alaska pipeline emerges. Investors should look at the current condition of the markets to consider TransCanada while it is discounted, because the oil must flow.

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Author

cameronconway

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