

Should TransCanada Corporation Be on Your Long-Term Buy List?

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)), one of North America's leading operators of natural gas pipelines and gas store facilities, announced fourth-quarter earnings results on the morning of February 13, and its stock has responded by falling about 4% in the trading sessions since. Let's take a closer look at the quarterly results to determine if we should consider using this weakness as a long-term buying opportunity, or avoid an investment for the time being.

The better-than-expected results

Here's a summary of TransCanada's fourth-quarter earnings results compared to what analysts had expected and its results in the same period a year ago.

Metric	Reported	Expected	Year Ago
Earnings Per Share	\$0.72	\$0.62	\$0.58
Revenue	\$2.62 billion	\$2.58 billion	\$2.33 billion

Source: *Financial Times*

TransCanada's earnings per share increased 24.1% and its revenue increased 12.2% compared to the fourth quarter of fiscal 2013. The company's very strong earnings per share growth can be attributed to comparable net income increasing 24.6% to \$511 million, while its double-digit increase in revenue can be attributed to revenue increasing in two of its three major segments, including 14.1% growth to \$1.4 billion in its Natural Gas Pipelines segment and 48% growth to \$435 million in its Liquids Pipelines segment.

Here's a quick breakdown of six other notable statistics and updates from the report compared to the year-ago period:

1. Comparable earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 17.8% to \$1.52 billion
2. Comparable operating profit increased 23.5% to \$1.11 billion
3. Net cash provided by operating activities increased 17.9% to \$1.19 billion
4. Generated \$62 million of free cash flow, compared to a loss of \$302 million in the year-ago period
5. Paid out a quarterly dividend of \$0.48 per share for a total cost of approximately \$340 million
6. Ended the quarter with \$489 million in cash and cash equivalents, a decrease of 29.9% from the third quarter

TransCanada's Board of Directors declared a quarterly dividend of \$0.52 per common share for the quarter ending on March 31, 2015, an increase of 8.3% from the \$0.48 dividend per share paid in each of the previous four quarters. It will be paid out on April 30 to shareholders of record at the close of business on March 31. Impressively, this marked the 15th consecutive year in which the Board of

Directors has increased the company's dividend.

Should you invest in TransCanada today?

TransCanada is one of North America's leading operators of natural gas pipelines and storage facilities, and increased demand for its services led it to a very strong fourth-quarter performance. The company achieved double-digit year-over-year growth in earnings per share, revenue, EBITDA, operating profit, and cash generated by operating activities, while generating \$62 million of free cash flow, returning \$340 million to shareholders, and announcing an 8.3% increase to its quarterly dividend to \$0.52 per share. However, its stock has reacted by falling about 4% in the days since the release.

I think the post-earnings weakness in TransCanada's stock represents a great long-term buying opportunity, because it trades at very inexpensive valuations, including just 23.2 times fiscal 2014's earnings per share of \$2.42, only 21.9 times fiscal 2015's estimated earnings per share of \$2.56, and only 20.2 times fiscal 2016's estimated earnings per share of \$2.78.

Furthermore, the company now pays an annual dividend of \$2.08 per share, giving its stock a 3.7% yield at current levels, and I think this makes its stock qualify as both a value and dividend play today.

With all of the information above in mind, I think TransCanada Corporation represents one of the best long-term investment opportunities in the market today, so investors should take a closer look and strongly consider establishing positions.

CATEGORY

1. Energy Stocks
2. Investing

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1. NYSE:TRP (Tc Energy)
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