Why TransCanada Corporation Can Sidestep the Oil-Price Shock

Description

When you think about **TransCanada Corporation** (TSX:TRP)(NYSE:TRP), you're likely focused on their delayed oil pipeline projects, such as Keystone XL and Energy East. But the pipeline operator has many other ventures on the go that add up to about $12 billion, many of which are already under construction and expected to be in service within a couple of years.

TransCanada has also raised its dividend for 15 straight years, and recently announced plans to increase that dividend by at least 8% through 2017. The company followed through with those plans with an 8.3% increase in February. If you're looking for an energy stock with strength to ride out the current weak oil price environment, this could be the one.

TransCanada operates one of the largest natural gas pipeline businesses in North America, creating what economists call a wide economic moat, as the pipeline business is highly regulated, locking out potential competitors.

More than half of the natural gas produced in western Canada flows through TransCanada's Canadian Mainline pipeline to the U.S. and eastern Canada. But TransCanada is looking to the future, and a number of new business opportunities are tied to other energy-related projects, such as liquefied natural gas terminals.

The company's business model has shifted from a 60% weighting in natural gas and a 15% weighting in oil/liquids in 2010-2012 to a projected 39% weighting in natural gas and a 41% weighting in oil/liquids expected by 2018. Driving the significant growth in the liquids business are the Gulf Coast project and the Grand Rapids Pipeline project, both slated for 2017.

However, *Morningstar* strategist Jason Stevens warns that declining natural gas volumes from western Canada are a significant risk for the company's long-term financial health. And if the Keystone XL pipeline does not obtain regulatory approval, TransCanada could lose significant capital, as well as opportunities for future investment predicated for the pipeline. Still, the company's expansion of its pipeline business would create a business much less reliant on natural gas with significantly enhanced diversification.

RBC analyst Robert Kwan told the *Globe* that TransCanada's stock, which is currently trading at about $55, has an upside potential of $74, assuming approvals for both Keystone and Energy East. Meanwhile, small- to medium-sized projects will continue to add to TransCanada's coffers, regardless of the fate of the two high-profile projects.

All in all, TransCanada seems to have its bases covered, with numerous natural gas pipeline and liquids storage projects, and expansion plans involving both oil pipelines and natural gas. On top of that, the company's current dividend yield of 3.7% is very attractive, especially considering its pledge to increase its dividend in the next couple of years. This is one stock that seems to make sense in today's gloomy energy environment.

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Date
2025/07/02
Date Created
2015/04/15
Author
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