



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

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)), one of the leading operators of natural gas pipelines and gas storage facilities in North America, has watched its stock widely underperform in the overall market in 2015, falling over 2% compared to the TSX Composite Index's return of over 5%, but it has the potential to be one of the top performers over the next three to five years. Let's take a look at three reasons why this could happen and why you should initiate a long-term position today.

1. Strong earnings growth to support a higher stock price

On February 13 TransCanada released better-than-expected earnings results for its fiscal year ending on December 31, 2014, but its stock has responded by falling over 2% in the weeks since. Here's a breakdown of 10 of the most notable statistics from the report compared to the year ago:

1. Comparable net earnings increased 8.3% to \$1.72 billion
2. Comparable earnings per share increased 8% to \$2.42
3. Revenue increased 15.8% to \$10.19 billion
4. Comparable earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 13.6% to \$5.52 billion
5. Funds generated from operations increased 6.7% to \$4.27 billion
6. Net cash provided by operations increased 11% to \$4.08 billion
7. Capital expenditures decreased 16.7% to \$3.55 billion
8. Paid out dividends totaling \$1.92 per share during the year, an increase of 4.3% from fiscal 2013
9. Ended the quarter with \$489 million in cash and cash equivalents, a decrease of 29.9% from the beginning of the quarter
10. Ended the year with 709 million basic common shares outstanding, an increase of 0.3% from the end of fiscal 2013

2. The stock trades at inexpensive current and forward valuations

At today's levels TransCanada's stock trades at just 23.1 times fiscal 2014's earnings per share of \$2.42, only 22.3 times fiscal 2015's estimated earnings per share of \$2.51, and a mere 20.8 times

fiscal 2016's estimated earnings per share of \$2.68, all of which are very inexpensive compared to its long-term growth rate.

I think TransCanada's stock could consistently command a fair multiple of at least 24, which would place its shares upwards of \$60 by the conclusion of fiscal 2015 and upwards of \$64 by the conclusion of fiscal 2016, representing upside of more than 7% and 14%, respectively, from current levels.

3. A 3.7% dividend yield

TransCanada pays a quarterly dividend of \$0.52 per share, or \$2.08 per share annually, which gives its stock a 3.7% yield at current levels. The company has also increased its dividend eight times since 2008, showing that it is committed to maximizing shareholder returns, and I think this makes it one of the top dividend-growth plays in the energy sector today.

Should TransCanada be added to your portfolio today?

TransCanada Corporation could be one of the top performing stocks in the next several years because it has the support of very strong earnings growth; its stock trades at inexpensive valuations; and it has a 3.7% dividend yield. Long-term investors should take a closer look and strongly consider establishing positions today.

CATEGORY

1. Energy Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

Category

1. Energy Stocks
2. Investing

Tags

1. Editor's Choice

Date

2025/09/13

Date Created

2015/04/17

Author

jsolitro

default watermark