After a Big NDP Victory, Does TransCanada Corporation Belong in Your Portfolio?

Description

On Tuesday voters in Alberta did the unthinkable: they elected an NDP government, ending a 40+ year reign for the Progressive Conservatives.

It's a wild swing to the left for a province that is known for being very right wing. And it has oil companies very worried. NDP leader Rachel Notley has promised to raise Alberta's corporate tax rate from 10-12%, and also to review its oil royalty scheme. Furthermore, she will not lobby for the Keystone XL nor Northern Gateway pipelines.

Understandably, oil companies are worried, as are their shareholders. For example, shares of **Canadian Natural Resources Ltd.** sunk by more than 2% on Wednesday (as of this writing), even though oil prices are rising.

TransCanada Corporation (TSX:TRP)(NYSE:TRP) shares also reacted negatively and are down just over 2%. Is this warranted?

A no go anyways

TransCanada's shareholders are, without doubt, concerned by Ms. Notley's lack of support for Keystone. But let's be honest. That pipeline won't see the light of day for a long time, no matter who is premier of Alberta.

There are a number of reasons for this. President Obama, despite waffling on the subject, is clearly opposed to the pipeline. Secondly, I doubt that Keystone is really all that necessary. Alberta oil doesn't face the same transportation bottlenecks as it once did, and with oil prices so depressed, that's unlikely to change any time soon.

In any case, the project's estimated cost has already swollen to US$8 billion. And if history is any guide, even that number is a low-ball estimate. So, I don't see Ms. Notley's lack of support for Keystone as a big deal.

Plenty of opportunities

Fortunately for TransCanada, the company doesn't really need Keystone either. It has over "$46 billion of new-growth projects under long-term contracts or regulated business models." In other words, if it can't build Keystone, there are other ways for the company to spend its money.

That should continue. Oil and gas supply has exploded, especially in the United States, and that's created a great need for pipelines. Currently, much of that need is being filled by rail, an expensive and dangerous way of moving crude. And if Canadian oil is indeed hampered by Ms. Notley, then that should provide some nice price support, leading to even more drilling in the USA.

Still a strong dividend

Even with an NDP government, TransCanada has a very nice dividend. As of this writing, the stock yields just under 4%, which is not bad considering the dividend has grown by 7% per year since 2000. Better yet, TransCanada hopes to increase the payout by 8% per year to 2017.

So, to conclude, this seems to be yet another example of Mr. Market overreacting to political events. That's created a nice opportunity for the rest of us.

CATEGORY

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1. NYSE:TRP (Tc Energy)
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