Why TransCanada Corporation Is Poised for Long-Term Growth

Description

Ultimately, the price of a stock is driven by the market's expectations for a company's earnings growth, and the higher the growth expectation, the higher the share price. For **TransCanada Corporation** (TSX:TRP)(NYSE:TRP), the market is largely focused on the $12 billion in approved projects set to be in service before 2018, as well as the potential for the Keystone XL, and Energy East oil pipelines to be approved hopefully between 2016 and 2019.

Beyond this, TransCanada's long-term growth could be propelled by key investments it's making in pipeline infrastructure to connect growing supplies of shale natural gas from the Montney and Horn River formations to Liquid Natural Gas (LNG) export terminals that are being proposed along the west coast of British Columbia. These terminals would supply LNG to rapidly growing demand from Asia.

Here's why LNG demand is poised to boom, and how TransCanada is positioning itself to profit.

Natural gas has been a risk to TransCanada

In order to understand the potential natural gas holds for TransCanada, it is important to understand the past. For the past several years, the company has on average received approximately 61% of its earnings before income, taxes, depreciation, and amortization from natural gas, with the remainder being from oil and energy.

TransCanada is going to be more oil dominated due to the fact that the company has been seeing huge declines in natural gas volumes on its Canadian Mainline pipeline (which runs from Alberta to Quebec). TransCanada was pumping 6.8 Bcf/d through the pipeline in 2000, which dropped down to 2.4 Bcf/d by 2012.

This decline has been largely due to the fact that new sources of natural gas have emerged in the Northeast U.S., and these sources, due to their proximity, are replacing natural gas that was once transported via TransCanada to customers on the east coast of the U.S. As a result, gas exports to the U.S. are dropping rapidly, and Canadian production has been declining with it. These has been a significant risk for TransCanada.

The coming LNG boom should help reverse this

Fortunately, an emerging LNG industry is forming in British Columbia. LNG allows natural gas reserves in one area, like Canada, to be connected to distant sources of demand, like Asia, irrespective of distance, which means that natural gas production is no longer confined to regions that can be accessed by pipeline.

Natural gas demand is growing and will be 25% of the world's energy supply by 2035, up from 21% currently. LNG demand growth is expected to double by 2030, as economies like Japan, South Korea, Taiwan, and China look to import more natural gas.

Currently, there are seven LNG facilities being proposed in B.C., and some, like the Kitimat LNG export facility, have received approval and are awaiting construction.

How TransCanada is poised to benefit

TransCanada has several billion dollars of projects slated to connect natural gas reserves in B.C. to proposed LNG export facilities. These include the $5 billion Prince Rupert Gas Transmission project, which connects production the Montney natural gas formation to the proposed Pacific Northwest LNG facility.

These projects also include the $5 billion Coastal Gaslink project, which connects production from the Montney gas producing region to the Kitimat LNG export facility, where gas will be liquefied and exported. With all environmental approvals in place, the Kitimat facility should begin construction in 2016, and TransCanada's pipeline should be operational by 2020.

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