



Have TransCanada Corporation's Shares Bottomed?

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)), one of the largest owners and operators of natural gas pipelines and storage facilities in North America, has posted a very disappointing performance in 2015. It has fallen over 9% as the TSX Composite Index has returned just under 1%, but I think it could be one of the top performing energy stocks from this point forward. Let's take a look at three primary factors that could send its shares higher and why you should consider initiating a long-term position today.

1. Its double-digit Q1 earnings growth could support a near-term rally

TransCanada announced strong first-quarter earnings results on the morning of May 1, but its stock has responded by falling over 7% in the weeks since. Here's a summary of 10 of the most notable statistics from the report compared with the year-ago period:

1. Comparable net income increased 10.2% to \$465 million
2. Comparable earnings per share increased 10% to \$0.66
3. Revenue decreased 0.3% to \$2.87 billion
4. Delivery volumes decreased 6.5% to 1.06 trillion cubic feet in its NGTL System segment
5. Delivery volumes increased 0.2% to 529 billion cubic feet in its Canadian Mainline segment
6. Delivery volumes decreased 3% to 509 billion cubic feet in its ANR Pipeline segment
7. Comparable earnings before interest, taxes, depreciation, and amortization increased 9.7% to \$1.53 billion
8. Funds generated from operations increased 4.6% to \$1.15 billion
9. Comparable earnings before interest and taxes increased 9.4% to \$1.1 billion
10. Net cash provided by operations decreased 22.4% to \$760 million

2. Its stock trades at inexpensive forward valuations

At current levels TransCanada's stock trades at just 20.9 times fiscal 2015's estimated earnings per share of \$2.48 and only 19.6 times fiscal 2016's estimated earnings per share of \$2.65, both of which are inexpensive compared with the industry average price-to-earnings multiple of 26.9.

I think TransCanada's stock could consistently trade at a fair multiple of at least 24, which would place its shares upwards of \$59.50 by the conclusion of fiscal 2015 and upwards of \$63.50 by the conclusion of fiscal 2016, representing upside of more than 14% and 22%, respectively, from today's levels.

3. It has increased its annual dividend payment for 15 consecutive years

TransCanada pays a quarterly dividend of \$0.52 per share, or \$2.08 per share annually, giving it stock a 4% yield at today's levels. It has also increased its annual dividend payment for 15 consecutive years, showing that it is strongly dedicated to maximizing shareholder value and making it one of the top dividend-growth plays in the market today.

Should you buy shares of TransCanada today?

I think TransCanada's stock could rebound and outperform the overall market going forward. It has the support of double-digit first-quarter earnings growth, its stock trades at inexpensive forward valuations, and it has increased its annual dividend payment for 15 consecutive years, with a current yield of approximately 4%. All long-term investors should strongly consider beginning to scale in to positions today.

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