TransCanada Corporation Reports Very Strong Q2 Earnings: Should You Buy Now?

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP), one of North America's leading operators of natural gas pipelines and storage facilities, announced better-than-expected second-quarter earnings results before the market opened on July 31, and its stock responded by rising about 1% in the trading session that followed. Let's take a closer look at the results to determine if the stock could head higher from here, and if we should be long-term buyers today.

Surpassing analysts' expectations with ease

Here's a summary of TransCanada's second-quarter earnings results compared with what analysts had expected and its results in the same period a year ago.

Metric	Reported	Expected	Year-Ago
Comparable Earnings Per Share	$0.56	$0.52	$0.47
Revenue	$2.63 billion	$2.42 billion	$2.23 billion

Source: Financial Times

TransCanada's comparable earnings per share increased 19.1% and its revenue increased 17.8% compared with the second quarter of fiscal 2014. The company's very strong earnings-per-share growth can be attributed to its earnings increasing in all three of its major segments, including 5.8% growth to $525 million in its natural gas pipelines segment, 23.6% growth to $267 million in its energy segment, and 28.2% growth to $250 million in its liquids pipelines segment.

Its strong revenue growth can also be attributed to growth in all three of its major segments, including 11.4% growth to $1.29 billion in its natural gas pipelines segment, 25.7% growth to $885 million in its energy segment, and 23.9% growth to $460 million in its liquids pipelines segment.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago period:

1. Comparable earnings before interest, taxes, depreciation, and amortization increased 12.3% to $1.37 billion
2. Comparable earnings before interest and taxes increased 13.3% to $927 million
3. Funds generated from operations increased 15.7% to $1.06 billion
4. Cash provided by operating activities decreased 13.4% to $969 million
5. Income from equity investments increased 75% to $119 million
6. Income before income taxes increased 16.8% to $744 million

TransCanada also announced that it will be maintaining its dividend of $0.52 per share in the third quarter, and it will be paid out on October 30 to shareholders of record at the close of business on September 30.

Should you buy shares of TransCanada today?

It was a phenomenal quarter for TransCanada, so I think its stock should have risen much higher than it did on the day of the release. With this being said, I think its stock could head significantly higher from here and represents a great long-term investment opportunity because it still trades at attractive forward valuations and because it has a high dividend yield with an impressive track record of increasing its annual payment, which will continue to attract investors.

First, TransCanada's stock trades at 20.7 times fiscal 2015's estimated earnings per share of $2.45 and 19.3 times fiscal 2016's estimated earnings per share of $2.63, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 21.4.

Second, TransCanada pays an annual dividend of $2.08 per share, which gives its stock a 4.1% yield at today's levels. The company has also increased its dividend for 15 consecutive years, making it one of the top dividend-growth plays in the market today, and it plans to grow its dividend by 8-10% annually through 2017.

With all of the information provided above in mind, I think TransCanada represents the best long-term investment opportunity in the energy sector today. Foolish investors should strongly consider making it a core holding.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

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