



3 Reasons to Consider TransCanada Corporation Right Now

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)) is down 12% this year as the collapse in oil prices and the uncertainty around two major pipelines continue to drive investors away from the stock.

The current issues are definitely cause for concern, but when you look at the big picture, the company has a lot going for it.

Here are the reasons why I think TransCanada deserves a serious look right now.

1. Earnings strength

TransCanada just reported Q2 2015 net income of \$429 million, or \$0.60 per share, compared with \$416 million, or \$0.59 per share, in Q2 2014.

The company operates natural gas pipelines, liquids pipelines, and an energy division. All three delivered strong results in the quarter and the consistent numbers are an indication of the quality of TransCanada's asset base, especially in the current environment.

2. Strong capital program

TransCanada has about \$46 billion in projects in the pipeline. Keystone and Energy East are the largest in the portfolio.

Keystone is the controversial US\$8 billion pipeline that would send Canadian oil sands production to U.S. refineries. TransCanada has already spent several years and US\$2.4 billion trying to get the pipeline approved, and Keystone's future is still uncertain. At this point, investors should probably consider the project a bonus when evaluating the stock, but Keystone shouldn't be written off completely.

Energy East is expected to cost at least \$12 billion and will transport western Canadian oil to refineries in Quebec and New Brunswick. TransCanada already has binding long-term contracts in place to cover one million barrel per day (Bbl/d) of the 1.1 million Bbl/d of total capacity, and hopes to have the

pipeline built and operating by 2020. The company has a lot of work to do to get the various stakeholders on the same page, but I think the project will go ahead.

Keystone and Energy East tend to get a lot of media attention, but TransCanada also has several smaller projects that are moving along nicely. In fact, the company expects to put nearly \$12 billion of new assets into service by 2018.

3. Dividend growth

TransCanada has a strong history of dividend growth and the company just announced plans to increase the distribution by 8-10% per year through 2017.

The current annualized distribution of \$2.08 per share yields about 4.1%.

Should you buy TransCanada?

The uncertainty around the large projects is probably priced in right now, so there should be limited downside risk to the stock. If Keystone gets approved or if positive news comes out about Energy East, the market could reward TransCanada with a higher valuation than the current 19 times forward earnings.

The dividend is set to grow a healthy clip for the next few years and the distribution should be safe beyond that point. Long-term investors should be comfortable holding the stock at the current price.

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1. Energy Stocks
2. Investing

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