



## More Layoffs at TransCanada Corporation: Should Shareholders Be Alarmed?

### Description

In June, **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) laid off 185 positions from its major projects department. Last Monday, the leading pipeline informed employees that more organization changes are being implemented over the next few months.

The whole process is expected to end in November. So, don't be surprised if you see more layoffs happening at TransCanada. Including layoffs and those going into retirement, about 20% of senior management is expected to be eliminated.

### Why the layoffs?

TransCanada's trailing 12-month operating cash flow came in 5.4% lower than its 2014 operating cash flow. When looking at the stricter free cash flow metric, the picture is even gloomier. It was reduced by 53.1%! The high reduction is due to the operating cash flow decline and the higher capex.

"Falling oil prices and the current environment are having a profound impact on our customers and we must do all we can to drive down costs and pursue our projects more efficiently and strategically," spokesman James Millar stated in an email.

When times are tough, businesses may choose to cut costs to make operations more efficient. So, it's not necessarily a bad thing for TransCanada to cut costs. The efficiency will benefit the company not only in the near term, but in the long term as well. It will help the business maintain competitiveness and maximize shareholder value over time.

### Is the dividend still safe?

TransCanada's payout ratio is above 80%, which is at the midpoint of its payout ratio range in the past five years. TransCanada's dividend is still well covered by earnings and doesn't look to be in danger.

Additionally, the leading pipeline has increased its dividend for 14 consecutive years. So, the company is likely to stick with that tradition because it probably wants to attract long-term investors who are there for the growing dividend. And long-term shareholders make its shares less volatile.

## Valuation

At about \$44, TransCanada is trading at a price-to-earnings ratio of 18 with a 4.7% yield. TransCanada shares look fairly valued today due to the lower oil price. If it hits a multiple of 15, or \$37 per share, a decline of 15.9% from current levels, TransCanada would be a rare opportunity. It would also imply a yield of 5.6%, at which time, investors should buy truckloads of shares.

## In conclusion

Long-term investors could start buying the fairly valued, high-quality shares today. Then they could buy more TransCanada shares closer to \$41.60 to lock in a 5% yield. If you are a deep-value investor, you could wait to buy at \$37, but be aware that it may not materialize.

## CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

## TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

## Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

## Date

2025/08/27

## Date Created

2015/09/28

## Author

kayng

default watermark