



TransCanada Corporation: Is it Finally Time to Buy?

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)) has been under pressure for most of the past 12 months, but a recent surge in the stock suggests it might have finally bottomed.

Let's take a look at the company to see if it deserves a spot in your portfolio.

Pipeline woes

For the past year, the slowdown in the energy sector and delays on two of TransCanada's larger projects, Keystone XL and Energy East, have put pressure on the stock. It makes sense because TransCanada has to build new energy infrastructure to grow earnings.

With energy prices now recovering, the market is becoming more optimistic, but the big projects are still a concern.

Keystone would carry western Canadian crude oil across the border and connect with the lower leg of the project, which is already serving U.S.-based refineries along the Gulf coast.

Republicans are in favour of Keystone, but President Obama and his possible successor, Hillary Clinton, are not fans. If the Democrats win again, Keystone's woes are likely to continue. A Republican victory could see an approval come quite quickly, so you are looking at a 50/50 chance that the pipeline gets built.

At US\$8 billion, Keystone XL is important, but it isn't going to break TransCanada if it doesn't go through.

Energy East is a \$12 billion project that would move western Canadian oil to refineries in eastern Canada. TransCanada already has binding contracts in place for 90% of the capacity, so it's just a matter of getting the federal government, provinces, and local communities on board to get the pipeline built.

Pipeline spills are ugly when they happen, but moving oil by rail carries greater risks. The oil is going to

go one way or the other, so I think Energy East will eventually get built, but investors should consider it a bonus at this point.

Pipeline growth

Despite the troubles on the mega-projects, TransCanada has another \$12 billion in smaller projects that are moving along quite nicely. In fact, they are all expected to be completed and in service by the end of 2018.

As energy companies continue to look for ways to get product to international markets, TransCanada should see new projects develop. A continued rebound in oil and gas prices would certainly help speed up the process.

Latin America is another area of growth. TransCanada already has a strong presence in the region, and governments are eager to get new infrastructure built.

Dividends

TransCanada has a strong history of dividend growth, and that trend is set to continue. The company expects to raise the payout by 8-10% per year through 2017, and new projects should be lined up by then to extend the trend.

At the moment the annualized dividend of \$2.08 yields a solid 4.5%.

Should you buy TransCanada?

The stock trades at a reasonable 17 times forward earnings. If either Keystone or Energy East gets approved, the stock would move significantly higher. Otherwise, you still get a great distribution with solid growth. That's not bad in the current environment.

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Author

aswalker

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