



TransCanada Corporation Beat Q3 Expectations: 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 third-quarter earnings results before the market opened on November 3, and its stock responded by making a slight move to the upside in the day's trading session.

Let's take a closer look at the quarterly results to determine if this could be the start of a sustained move higher and if we should consider initiating positions today.

Breaking down the better-than-expected results

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

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Comparable Earnings Per Share	\$0.62	\$0.60	\$0.63
Revenue	\$2.94 billion	\$2.67 billion	\$2.45 billion

Source: *Financial Times*

TransCanada's comparable earnings per share decreased 1.6% and its revenue increased 20.1% compared with the third quarter of fiscal 2014. The company's slight decline in earnings per share can be attributed to its comparable net income decreasing 2.2% to \$440 million, primarily due to lower earnings in its Bruce Power and Western Power sub-segments in its Energy segment.

Its very strong revenue growth can be attributed to its revenues increasing in all three of its major segments, including 14% growth to \$1.31 billion in its Natural Gas Pipelines segment, 23.2% growth to \$1.13 billion in its Energy segment, and 31% growth to \$507 million in its Liquids Pipelines segment.

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

1. Comparable earnings before interest, taxes, depreciation, and amortization increased 6.9% to \$1.48 billion
2. Comparable earnings before interest and taxes increased 6.1% to \$1.04 billion
3. Funds generated from operations increased 6.4% to \$1.14 billion
4. Net cash provided by operating activities increased 0.4% to \$1.25 billion
5. Ended the quarter with \$755 million in cash and cash equivalents, an increase of 28% from the beginning of the quarter

TransCanada also announced that it will be maintaining its dividend of \$0.52 per share in the fourth quarter, and it will be paid out on January 29 to shareholders of record at the close of business on December 31.

Should you buy or avoid TransCanada today?

It was a great quarter overall for TransCanada, and its results surpassed analysts' expectations, so I think its stock responded correctly by moving higher. I also think the stock represents a great long-term investment opportunity today, because it trades at inexpensive valuations, has a high dividend, and is a dividend-growth play.

First, TransCanada's stock trades at just 18.1 times fiscal 2015's estimated earnings per share of \$2.46 and only 16.7 times fiscal 2016's estimated earnings per share of \$2.66, both of which are very inexpensive compared with its five-year average price-to-earnings multiple of 21.7.

I think the company's stock could consistently trade at a fair multiple of at least 20, which would place its shares upwards of \$53 by the conclusion of fiscal 2016, representing upside of more than 19% from today's levels. This projection is also very reasonable when you consider that it would still trade at a major discount compared with its current 52-week high of \$59.50, which it reached back on February 13.

Second, TransCanada pays an annual dividend of \$2.08 per share, which gives its stock a 4.7% yield, and this is significantly higher than the industry average yield of 3%. It is also very important to note that it has raised its dividend for 15 consecutive years, and its increased amount of funds generated from operations, including 8.5% year-over-year growth to \$3.35 billion in the first nine months of fiscal 2015, could allow this streak to continue in 2016.

With all of the information provided above in mind, I think TransCanada is one of the best investment options in the energy sector today. All Foolish investors should take a closer look and strongly consider beginning to scale in to long-term positions.

CATEGORY

1. Energy Stocks
2. Investing

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