



Is TransCanada Corporation's Keystone XL Dream Finally Dead?

Description

On Monday night, **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) announced that it asked the U.S. State Department to pause its permit application for the Keystone XL pipeline.

The company knows President Obama is determined to use his presidential veto if the pipeline application ever crosses his desk, so management has decided to take their chances with the next president.

Assuming the State Department grants the company a pause, it creates an interesting potential issue during the 2016 presidential campaign. Hillary Clinton, the front-runner in the race, has already gone on record saying she opposes the project. Bernie Sanders, her main opponent in the race to become the Democratic nominee, is also against the project.

On the other side of the political spectrum, Republican front-runner Donald Trump has been a fan of the pipeline in the past, but has recently backed off his previous support. He recently told reporters that as president he would demand a "better deal" from TransCanada. He complained that the U.S. government isn't getting much in return for allowing the project to begin right away.

Even at the grass roots level, the project isn't terribly popular. A small majority of Americans support the project, while Canadians slightly oppose it, with 48% of respondents from a recent survey saying they're opposed to Keystone XL; 42% said they are in favour of it.

Will it ever get built?

Right now is a tough time to be building pipelines.

Let's face it; it's far easier to get a pipeline passed when oil prices are high. Energy companies can tell the public more pipelines will bring down the price of crude, which would bring down the price of gas for Joe Average.

Low oil prices are only one part of a double whammy affecting all the pipeline companies. The public is more environmentally conscious than ever, and many don't support any additional big energy projects.

You can make the argument that these projects are needed to ensure there's enough gas to put in our cars and that pipelines are the safest—and most environmentally friendly—way to transport this crude. That still won't convince the public to get behind pipelines.

Democratic politicians in the United States know this better than anyone, which is why both Clinton and Sanders are opposed to the project. It's just not very popular with their base.

With the price of crude positioned to stay low for a while, drumming up support for this project will be tough. I can easily envision a world where this project gets scrapped for years, perhaps even a decade. There's just no political will to see it through right now.

Will TransCanada recover?

TransCanada's shares actually rose during Tuesday's trading session—albeit a modest 0.5%.

It's obvious the market had already priced in Keystone XL being delayed. Over the last six months, TransCanada shares are down 21%, while **Enbridge** shares are only down about half that much. The market has already punished TransCanada for this.

But there are still plenty of reasons to like TransCanada going forward. It trades at a lower enterprise-value-to-EBITDA ratio compared with its peers. And it still has \$12 billion worth of projects coming to market in the short to medium term, and that's not even counting Energy East, which is projected to be in service in 2020.

Management also projects some nice gains for the dividend going forward. Even without Keystone XL, shareholders are looking at 8-10% dividend increases in both 2016 and 2017. TransCanada already hiked the dividend by more than 8% earlier this year, and thanks to the sell-off, shares have a current yield of 4.7%.

It isn't very often investors can get a stock yielding almost 5% with the potential for double-digit dividend increases. And even without Keystone XL, TransCanada still has plenty of potential growth. For those reasons, it's easy to make the argument that investors should pick up shares of one of the finest energy companies out there.

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