



## Is TransCanada Corporation Still a Growth Stock?

### Description

Pipeline companies often tout their low direct exposure to commodity prices, since most revenues are obtained from fee-for-service or cost-of-service contracts, where the pipeline is paid a fee per barrel shipped.

While this is true, oil prices are more important to **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) than one would think, and the recent weakening of the share price along with the price of oil shows that shareholders agree.

TransCanada will get 41% of its earnings from oil/liquids by 2018, and if oil prices remain weak, the Canadian Association of Petroleum Producers (CAPP) believes production growth out of the oil sands as well as the need for new infrastructure will be nearly non-existent.

Combine this threat with the increasing regulatory pressure against pipelines (which could mean that more export pipelines will be rejected) and TransCanada's long-term growth seems to be at risk. Can TransCanada keep up its pace of growth against these threats?

### Why TransCanada could be a low-growth stock going forward

It is important to understand the factors that could affect TransCanada's long-term growth. Currently, TransCanada's growth is driven by its \$46 billion capital growth program. About \$34 billion of this growth program, however, is in the form of large-scale projects that are expected to come online after 2017 (Energy East and the LNG projects).

TransCanada's growth is dependent on these projects receiving regulatory approval, none of which have been fully approved. Keystone XL represented about \$8-10 billion of that \$34 billion in projects, and its rejection is expected to shave about \$5 of potential share-price growth off TransCanada.

According to analysts at **RBC**, Energy East is worth about \$12 in share-price growth for TransCanada, and the LNG projects are likely worth \$6-7. With all of these projects up in the air, TransCanada could have a very modest growth trajectory in the event they are rejected.

Outside of the regulatory risks, the low price of oil is also threatening TransCanada. CAPP recently provided two long-term oil sands production scenarios. In the first scenario, oil sands production would grow by nearly one million barrels per day between 2014 and 2020. After 2020, production would grow by another million barrels per day through to 2030.

In the second scenario, production would once again grow by one million barrels per day to 2020, but after this, production would essentially level off and stay flat through to 2030. The second scenario assumes that only the currently operating and in construction projects go through, after which, there will be very little growth due to a price of oil that makes new capital investment uneconomic.

This second scenario would mean TransCanada's long-term growth after 2020 is seriously jeopardized, since little new infrastructure would be required. It would also call into question the necessity of all the current projects that are on the table, including not only TransCanada's Energy East, but also **Kinder Morgan's** Trans Mountain Pipeline and **Enbridge's** Northern Gateway. It is unlikely that all would be needed.

### **TransCanada has other growth pathways**

While this may sound grim, TransCanada does have other opportunities outside of the oil/liquids space, specifically in natural gas. Not only is there opportunity in this area, but the projects seem far more likely to obtain regulatory approval.

For example, out of TransCanada's \$36 billion in large-scale projects, about \$12 billion comes from the Coastal Gaslink, Prince Rupert Gas Transmission, and Merrick Mainline projects. These projects are all designed to connect the rapidly growing Montney natural gas supply to new liquid natural gas export facilities on British Columbia's coast that would ship gas to Asian markets.

The Prince Rupert Gas Transmission project (the largest of these projects) has received all the permits it needs and is simply awaiting a final investment decision for the actual terminal, which is being built by Petronas.

The \$4.8 billion Coastal Gaslink project has received eight of the 10 required permits it needs, with the final two being expected before the end of the year. With natural gas-demand growth expected to greatly exceed oil demand growth, and with most of this demand coming from Asia, linking Canada's vast supply to Asian markets represents an excellent long-term opportunity for TransCanada that could continue to provide growth.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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