What’s Next for TransCanada Corporation Now That Keystone XL Has Been Rejected?

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) is a massive energy infrastructure company that has a network of 3,500 km of oil pipeline and over 68,000 km of gas pipeline scattered all around North America. If that isn’t impressive enough, the company also generates and stores power. It has 11,800 MW of power generation and storage facilities for 407 billion cubic feet of gas.

One of the more controversial projects associated with TransCanada was the Keystone XL pipeline project. The project was slated to be a pipeline that started in Alberta and went through Montana, where American-produced oil would be added to the mix, and through South Dakota into Nebraska, where it would join with existing pipelines.

The project was rejected recently by the U.S government, but as far as TransCanada is concerned, there are more than enough other projects for the company to move on to.

New Projects and higher dividends

Keystone XL was a huge $8 billion project with massive potential, but TransCanada has already lined up another $36 billion in projects. The focus of the company is now on smaller projects or on twinning existing lines, while the large-scale pipeline projects await approval from regulatory and environmental agencies.

In the past week, TransCanada was contracted to construct a natural gas pipeline in Mexico for a reported $500 million. This announcement came just a few days after the permit for the Keystone XL project was denied.

The company’s subsidiary, NOVA gas Transmission Ltd. also signed a contract for a $570 million expansion that will see 2.7 billion cubic feet of natural gas transported per day. The project includes 88 km of pipeline, a new compressor, and multiple metre stations and facilities.

All of the small- and medium-sized projects that TransCanada is working on will support dividend growth for several years. The company plans to increase dividend payouts by 8-10% annually. The current dividend that the company offers amounts to $0.52 per share, a yield of 4.82%.

A slump in crude prices leads to cutbacks

TransCanada has also been dealing with plunging crude prices. The current slump in prices has lasted 17 months so far, and doesn't seem to be ending anytime soon. TransCanada and energy companies that produce or trade oil have been feeling the pinch of low-cost oil, leading many of them to cut costs in any way possible. Nationwide, job losses have exceeded 36,000.

For TransCanada, those job losses have come in multiple waves. Earlier this year the company cut 185 workers and announced a plan to cut 20% of senior leadership positions. The company also announced a new round of layoffs this week, but did not comment on the total number of people who will be impacted.

As difficult as these job losses are, they are necessary at times. TransCanada has actually fared better than some competitors, who have not only eliminated positions and slashed dividends, but are now having financial difficulties.

The stock currently trades at just over $43 and is down nearly 25% for the year. Despite the decline in price, in my opinion, TransCanada remains a good buy for investors seeking long-term growth. The company has a strong balance sheet and a sound plan for expansion that isn't reliant on previously inflated oil prices.

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