Is TransCanada Corporation a Buy After its Q4 Results and Dividend Hike?

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP), one of North America's leading operators of natural gas pipelines and storage facilities, announced fourth-quarter earnings results and a dividend hike on the morning of February 11, and its stock has responded by remaining relatively flat.

Let's take a closer look at the report and the fundamentals of its stock to determine if we should use this lack of movement as a long-term buying opportunity, or if we should wait for a better entry point in the trading sessions ahead.

A quarter of mixed growth

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

Metric	Q4 2015 Actual	Q4 2015 Expected	Q4 2014 Actual
Comparable Earnings Per Share	$0.64	$0.61	$0.72
Revenue	$2.85 billion	$2.89 billion	$2.62 billion

Source: Financial Times

TransCanada's comparable earnings per share decreased 11.1% and its revenue increased 9% compared with the fourth quarter of fiscal 2014.

The company's double-digit percentage decline in earnings per share can be attributed to its comparable net earnings decreasing 11.4% to $453 million, primarily due to lower contributions from its Canadian Power and Canadian Mainline sub-segments.

Its strong revenue growth can be attributed to its revenues increasing in all three of its major operating segments, including 6.3% growth to $1.49 billion in its Natural Gas Pipelines segment, 14.5% growth to $895 million in its Energy segment, and 7.8% growth to $469 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 0.4% to $1.53 billion
2. Comparable earnings before interest and taxes increased 13.9% to $697 million
3. Funds generated from operations decreased 1.6% to $1.16 billion
4. Net cash provided by operating activities decreased 4.3% to $1.14 billion
5. Comparable distributable cash flow decreased 1% to $778 million

A shareholder-friendly announcement

TransCanada also announced an 8.7% increase to its quarterly dividend to $0.565 per share, and the next payment will come on April 29 to shareholders of record at the close of business on March 31.

What should you do with TransCanada today?

It was a great quarter overall for TransCanada given the many headwinds facing the energy industry, and the dividend hike was a major positive, so I think its stock should have responded by moving significantly higher. With this being said, I think the lack of movement in its stock represents a great long-term buying opportunity for two primary reasons.

First, it’s undervalued. Its stock trades at just 19.5 times fiscal 2015’s comparable earnings per share of $2.48 and only 18.6 times fiscal 2016’s estimated earnings per share of $2.59, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 21.7.

With its five-year average multiple and its estimated 5.8% long-term earnings growth rate in mind, I think TransCanada’s stock could consistently command a fair multiple of at least 21, which would place its shares upwards of $54 by the conclusion of fiscal 2016, representing upside of more than 11% from today’s levels.

Second, TransCanada now pays an annual dividend of $2.26 per share, which gives its stock a high and safe yield of about 4.7%. Investors must also note that the company has raised its annual dividend payment for 15 consecutive years, and the 8.7% hike it just announced puts it on pace for 2016 to mark the 16th consecutive year with an increase.

With all of the information provided above in mind, I think all Foolish investors should strongly consider beginning to scale in to long-term positions in TransCanada today.

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Date
2025/09/13
Date Created
2016/02/12
Author
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