TransCanada Corporation Changes Direction Once Again to Drive Growth

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) has had a tough couple of years. It has run into road block after road block, preventing it from moving forward with a number of its key growth projects. Those road blocks have forced the company to change direction, shifting from a focus of organic growth to one that's driven by mergers and acquisitions.

The company announced last week that it was buying U.S.-based **Columbia Pipeline Group Inc.** (NYSE:CPGX).

Local growth pathways are blocked

TransCanada's growth problems all started when it proposed to build the Keystone XL pipeline a few years ago to bring oil from Canada's oil sands into the U.S. That project spent six years in limbo before finally being rejected by the Obama administration last year.

With the company's southern growth strategy stalled, it looked both east and west for growth. It proposed to build the Energy East pipeline to move crude from the oil sands region to refineries and a marine terminal on the country's east coast.

In addition, it has proposed a number of natural gas pipelines in the western part of the country to move gas from western shale basins to proposed export terminals along the West Coast. However, like the Keystone XL, these projects have run into road blocks; the Energy East project has been stalled by a number of groups that are opposed to the pipeline's route, while LNG export projects remain stalled due to weak commodity prices.

Trying a different route

With its organic growth seemingly blocked in every direction, TransCanada has been forced to pivot once again. This time the company has chosen to buy growth as opposed to building it after agreeingto a $10.2 billion deal to buy Columbia Pipeline Group. In doing so it will gain a foothold in two of North America's fastest growing shale gas plays, that have actually been wreaking havoc on the company's legacy natural gas transportation business.

The shale gas boom in the U.S. has cut Canada's gas exports in half over the past few years, which has led to shrinking gas supplies running through TransCanada's cross-Canada Mainline system. It's a system that the company is now looking to partially convert to oil transportation as part of its Energy East project.

The U.S. needs more pipelines to move its own gas from shale plays to market centres. That's where Columbia Pipeline Group and its MLP **Columbia Pipeline Partners** come into play. The combined company currently has $9.6 billion in commercially secured growth projects that are expected to be in service over the next few years.

That effectively doubles TransCanada's growth pipeline if we exclude less certain projects like Energy East. That added visibility is a big key for the company given the problems it has had with a lot of its mega-growth projects, which have diminished the visibility of the company's ability to hit its target for dividend growth.

However, now that it has sealed the deal for Columbia Pipeline, it expects that this transaction will support and could augment the company's plan to grow its dividend 8-10% per year through 2020.

Investor takeaway

After struggling to move forward on a number of its key organic growth projects over the past few years, TransCanada has changed course and bought growth instead. That said, the company is being very strategic with this growth because the company it is buying has a huge growth pipeline that adds visibility to TransCanada's future growth. That should enabled the company to meet and potentially exceed its rather ambitious dividend-growth plans.

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Date
2025/09/12
Date Created
2016/03/22
Author
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