



TransCanada Corporation's Q1 Profits Rise, Revenues Fall: What Should You Do Now?

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)), one of North America's largest owners and operators of energy infrastructure assets, announced its first-quarter earnings results before the market opened on April 29, and its stock has reacted by making a slight move to the upside. Let's break down the results and the fundamentals of its stock to determine if it will head higher from here and if we should be long-term buyers today.

A quarter of mixed growth

Here's a summary of TransCanada's first-quarter earnings results compared with its results in the same period a year ago.

Metric	Q1 2016	Q1 2015
Comparable Earnings Per Share	\$0.70	\$0.66
Revenue	\$2.55 billion	\$2.87 billion

Source: TransCanada Corporation

TransCanada's comparable earnings per share increased 6.1% and its revenue decreased 11.4% compared with the first quarter of fiscal 2015. Its strong earnings-per-share growth can be attributed to its comparable net earnings increasing 6.2% to \$494 million, driven by higher contributions from Bruce Power, where its income from equity investments increased 44.3% to \$114 million.

Its double-digit percentage decline in revenue can be attributed to its revenue plummeting 33% to \$754 million in its Energy segment, including a 41.5% decline to \$393 million in its U.S. Power sub-segment and a 28.4% decline to \$199 million in its Canadian Power sub-segment, and this was only partially offset by its revenues increasing 0.6% to \$1.31 billion in its Natural Gas Pipelines segment and 8.4% to \$480 million in its Liquids Pipelines segment.

Here's a quick breakdown of six other notable statistics from the report compared with the year-ago

period:

1. Comparable earnings before interest, taxes, depreciation, and amortization decreased 1.9% to \$1.5 billion
2. Comparable earnings before interest and taxes decreased 4.5% to \$1.05 billion
3. Funds generated from operations decreased 2.4% to \$1.13 billion
4. Net cash provided by operating activities increased 37.5% to \$1.05 billion
5. Comparable distributable cash flow increased 1.5% to \$970 million
6. Comparable distributable cash flow per share increased 2.2% to \$1.38

TransCanada also announced that it would be maintaining its quarterly dividend of \$0.565 per share, and the next payment will come on July 29 to shareholders of record at the close of business on June 30.

What should you do with TransCanada today?

It was a good quarter overall for TransCanada, but nothing in the report stood out as impressive, so I think its stock has reacted correctly by only making a slight move higher. With this being said, I think its stock represents a great investment opportunity for the long term for two primary reasons.

First, it's undervalued. TransCanada's stock trades at 20.7 times fiscal 2016's estimated earnings per share of \$2.52 and 18.6 times fiscal 2017's estimated earnings per share of \$2.81, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 21.7 and its industry average multiple of 61.4. These multiples are also inexpensive given the company's estimated 5.9% long-term earnings growth rate.

Second, it has one of the best dividends in the energy sector. TransCanada pays an annual dividend of \$2.26 per share, which gives its stock a high and safe yield of about 4.3%. It is also very important to note that the company has raised its annual dividend payment for 15 consecutive years, and its 8.7% hike in February has 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 making TransCanada a core holding today.

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