



Is TransCanada Corporation About to Be US\$15 Billion Richer?

Description

TransCanada Corporation ([TSX:TRP](#))([NYSE:TRP](#)) made headlines over the weekend by filing a North American Free Trade Agreement (NAFTA) claim which asked for US\$15 billion in damages from the rejection of its Keystone XL pipeline project.

The project was first introduced back in 2008 to relatively little fanfare. It then grew into a key battleground issue between environmentalists and capitalists. Environmentalists argued that piping heavy oil from Canada's oil sands would directly contribute to global warming. On the other side, folks argued that oil would get transported anyway, and doing so via pipeline would be a whole lot better than other options such as rail.

Keystone XL also suffered from key opposition in Nebraska, where many farmers grouped together and created negative backlash.

President Obama officially axed the pipeline back in November, stating it would not be a meaningful long-term addition to the United States.

At that point, TransCanada had two recourse measures. It could sue the United States Government in federal court—which has already been done—and it can file a NAFTA complaint. Perhaps the reason why it waited until now to formally file such a complaint is because all three NAFTA leaders are scheduled to meet in Ottawa this week. TransCanada essentially forced itself onto the agenda.

Can TransCanada win?

Investors have just one question on their minds: Can TransCanada actually win this case?

This is where this story gets much trickier. The obvious answer is, of course, the company has a chance of winning. Just about every lawsuit has a chance. The bigger question is, Just how big is that chance?

There's little doubt that TransCanada has some smart lawyers on its side. And emotions are surely still running high. For years, Keystone XL was synonymous with TransCanada. There's a reason why the

stock's 52-week low was right around the time Obama officially rejected Keystone XL.

And on the surface, TransCanada seems to have a pretty strong case. It already owns pipelines in the United States. Heck, Keystone XL was slated to be an addition to a pipeline network that already is thousands of kilometres long.

Additionally, thousands of pipelines criss-cross the United States. Why did all of those pipelines get approved but Keystone XL didn't? Some of these pipelines already transport oil sands crude, so that's not the answer.

And finally, we have the US\$15 billion figure. Will TransCanada get all of that cash? Or will the company just get a portion of it? It's common for lawsuits to ask for the moon before settling for a more reasonable amount.

What will happen?

Investors hoping this suit will make shareholders US\$15 billion richer—which works out to about \$28 per share, a non-trivial amount—are probably going to end up disappointed. I think the chance of TransCanada walking away with the whole amount are slim to none.

I do think there's a reasonable chance TransCanada will walk away with something, however. The company does have a legitimate source of grievance. Decisions like this one make companies weary about putting large amounts of capital to work on large-scale projects. Would you invest billions in something if you knew the government could just change its mind without repercussions?

I just don't think a potential payout is enough compensation for investing in TransCanada shares at a 52-week high. If it was back in November and investors were paying \$41 or \$42 for each share, I could see how this potential upside might be attractive. Shares were cheap back then. They're much close to fairly valued today.

At closer to \$57 per share, I'd say any potential upside from this ruling is already priced into the stock.

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Author

nelsonpsmith

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