TransCanada Corporation Challenging Keystone Rejection and Completing $13 billion Acquisition

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) finally learned the fate of the Keystone XL pipeline project that would have carried U.S. and Canadian crude from the oil sands in Alberta through North Dakota to the U.S. Gulf Coast refineries.

The project was held up for over seven years and then was rejected by the U.S. administration late last year.

TransCanada is suing the U.S. over Keystone XL

TransCanada announced this week that the company will challenge the rejection of the project before a NAFTA arbitration panel. The company claims that the inordinate delays and eventual rejection of the permit were more political in nature, and the U.S. did not adhere to the obligations under NAFTA to treat all investors equally.

TransCanada is seeking the $15 billion investment plus interest in the challenge to make up for lost investments.

When TransCanada initially applied for the permit in 2008, the U.S. policy at the time outlined an executive order that is still in place today, which was to “expedite the development of energy production and transmission projects, including oil pipelines.” Somehow the word *expedite* doesn’t really work considering the seven-year delay.

After the initial permit was filed, TransCanada was awarded permits for other pipelines, which were approved in as much as two years. The company even paid $25 million to conduct an environmental-impact study, which ultimately showed there would be little impact. Fast forward to 2010, and current presidential candidate (then Secretary of State) Hillary Clinton noted that the State Department was “inclined” for the project to proceed.

Several more environmental-impact statements were made and a re-routing proposed through a controversial area of Nebraska. No approval came. Instead, a rejection was passed down late last year.

If you can't build it, then buy it

Shortly after the rejection, TransCanada turned its attention to Houston-based Columbia Pipeline group Inc. to potentially forge a deal with the company.

The company announced a deal has finally been made right on Canada's birthday. The deal is reportedly in the region of $US13 billion, which includes the assumption of nearly US$2.8 billion in debt.

While the Keystone XL decision was a major blow to TransCanada, this acquisition will become one of the core acquisitions for the company in terms of a long-term strategy.

Columbia's pipeline network is primarily focused on the U.S. northeast, more specifically in the Marcellus and Utica natural gas regions. The Marcellus region in particular has seen incredible growth over the past decade, and with TransCanada actively pursuing a west-to-east energy pipeline, the Columbia network of 24,000 km stretching from the Gulf Coast to the northeast would be a core part of that vision.

TransCanada is still a buy

TransCanada has steadily grown over the past years. The stock is up by an incredible 29% year-to-date with a price of $58.46. If that weren't enough, the company pays out a quarterly dividend of $0.56 per share, giving the stock a yield of 3.87%.

Regardless of the outcome of the pending NAFTA panel, TransCanada is forging ahead with other pipelines and the new Columbia acquisition, which will only make the company stronger and a greater investment opportunity.

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