



Up 17% This Summer: Can TransCanada Corporation Keep it Going?

Description

The S&P/TSX Composite Index is hotter than a pistol so far in 2016, up 15% year-to-date through August 17. Things are so good you could have thrown a dart at the stock pages at the start of this year and been reasonably certain to be ahead of the game more than one month into the second half of the calendar year.

That's great news for Canadian stocks, which haven't had much fun in recent years when compared to the S&P 500. Perhaps the tide is turning.

One of the hottest mega-caps (+\$20 billion) at the moment is **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)), which is up 17% over the past three months and 38% year-to-date. While TransCanada has been a stellar performer over the long term—with a 10.2% annualized total return over the past 15 years; that's almost 300 basis points higher than the composite index—investors must be wondering if it hasn't come too far, too fast.

Quite rightly, investors should be asking themselves: Can it keep it going?

Nobody has the answer to that question, not even Bruce Flatt, CEO of **Brookfield Asset Management Inc.**, whose firm owns six million shares in the infrastructure company. But what we do know is that it's got an excellent group of assets that generate significant top- and bottom-line results.

In the second quarter, TransCanada generated \$1.4 billion in comparable EBITDA on \$2.8 billion in revenue. Of the \$1.4 billion, \$880 million came from its natural gas pipelines in both Canada and internationally, another \$280 million came from its Keystone oil pipeline, and \$240 million came from its power-generation and oil-storage assets in Canada and the U.S.

On July 1, TransCanada acquired Columbia Pipeline Group, Inc. for US\$10.3 billion and the assumption of US\$2.7 billion in debt. The purchase adds 24,250 kilometres of natural gas pipelines in the both the Midwest and northwest portions of the U.S. In addition to its pipeline network, Columbia also brings to the table natural gas-storage and midstream services.

Columbia generated adjusted EBITDA of US\$686 million in fiscal 2015 on annual revenue of US\$1.3

billion. Accretive to earnings after the first year of owning these assets, TransCanada's annual EBITDA increased by more than 50% with the addition of Columbia. Combined, TransCanada has \$45 billion in long-term projects on the go, including US\$7.4 billion from Columbia to keep the profits flowing.

Much of the stock's surge in 2016 has come as a result of the Columbia acquisition, which was first announced in mid-March.

As Fool contributor Andrew Walker recently pointed out, TransCanada's [Q2 earnings](#) were nothing to write home about. With the Keystone XL pipeline seemingly shelved and the Energy East pipeline continuing to snake its way through the regulatory process, there's not a whole lot of excitement in the near term to push it higher, especially when you consider stocks both here and in the U.S. have gotten expensive.

If you're buying for a three- to five-year hold or longer, I think you should make an initial purchase and leave plenty in reserve for when the markets correct—and they will—but if you're looking for a quick hit, I'm afraid you'll want to look elsewhere.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

Category

1. Energy Stocks
2. Investing

Date

2025/08/26

Date Created

2016/08/18

Author

washworth

default watermark