TransCanada Corporation Is in Trouble

Description

Last month we found out that shippers on **TransCanada Corporation's** (TSX:TRP)(NYSE:TRP) Mainline natural gas pipeline network are refusing to accept a 42% rate cut on 10-year contracts. While this sounds like a good thing, the shippers are actually holding out for an even larger rate decrease.

Reuters reported that "they think the toll is still too high for such a long-term commitment."

For example, management of **Canadian Natural Resources Limited** were quoted as saying that rates were still "too high to provide the comfort needed in connection with a longer-term agreement."

The Mainline pipeline alone currently transports three billion cubic feet of natural gas per day and is TransCanada's biggest income generator.

The new rates, proposed at $0.82 per gigajoule, represent a major cut from the previous $1.40 shipping price. Fuel supplies that need to go from Alberta and British Columbia to markets in Ontario will ultimately need to find transport (whether it be through pipeline, boat, or rail), but it's clear that TransCanada does not have as solid of a business moat as many investors thought.

Things aren't getting easier

Earlier this year, anti-pipeline campaigns such as the Natural Resources Defense Council (which led the strike against the Keystone XL) decided to take aim at another proposed TransCanada project–its Energy East pipeline. The planned project is a $15.7 billion pipeline to transport crude oil from Alberta to New Brunswick.

To supplement growth, it appears as if management has turned to acquisitions.

In July, the company purchased most of **Columbia Pipeline Group Inc.'s** assets in a $13 billion deal. This added 24,000 km of pipeline capacity between the northeastern United States and the Gulf of Mexico.

In October, TransCanada announced that it will acquire the remaining portion of Columbia Pipeline for $848 million.

A scramble for profits

Today, TransCanada looks like a company scrambling for growth, no matter the cost.

Pipeline investors have gotten used to high and growing dividends. Despite the recent industry upheaval, TransCanada has somehow managed to maintain and grow its dividend of $2.24–a yield of 3.7%.

Disappointing those investors would surely kill TransCanada’s ability to raise additional cash and continue its persistent growth strategy. Pipelines still have an important and profitable role to play, but the pricing power doesn’t seem as strong as investors once thought.

With project delays, political pushback, and customers demanding over 50% rate cuts, TransCanada has been forced to seek out acquisitions in order to boost its bottom line. This hardly represents a sustainable long-term plan to grow shareholder value.

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