



Trump Gives TransCanada Corporation's Keystone XL the Green Light: Time to Buy?

Description

President Trump officially approved of the Keystone XL project, which will be built by **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)). Trump made it clear that he'd stand behind anything that creates more American jobs, so it's not a surprise that Trump gave the green light to the delayed Keystone XL pipeline project, which is expected to create 28,000 jobs, according to Trump.

The pipeline will link the Canadian oil sands to American refiners and is expected to give TransCanada a huge boost in free cash flow over the next few years. President Obama blocked this project for a long time, but now Trump could potentially make TransCanada great again with his support and approval.

Before you start scooping up shares of TransCanada on the news, you have to realize that Trump's prior positive comments about Keystone XL were already baked in to the stock; it was assumed that Trump's gold stamp of approval would happen this year. You won't see the stock soar over the short term because of news from Trump, but I think the company is shaping up to be one of the best dividend-growth plays on the TSX today.

Keystone XL will allow the company to return even more value to shareholders over the long run, but you have to own the stock and not trade it; otherwise, you'll miss out on the terrific long-term dividend-growth potential.

In addition to Keystone XL, TransCanada has many smaller-scale projects in its pipeline that will generate ample amounts of free cash flow over the long term. There is approximately \$25 billion worth of smaller projects currently under development that will steadily increase free cash flow generation until 2020. A lot of these projects are going to be wrapped up in the next few years, so we can expect generous annual dividend increases of at least 8% for the foreseeable future.

TransCanada currently pays a juicy 4% dividend yield, which is higher than the company's five-year historical average yield of 3.8%. The dividend is also expected to grow for years to come thanks to a number of cash flow-generating pipeline projects like Keystone XL.

The stock has a price-to-book multiple of 2.6, a price-to-sales multiple of 3.6, and a price-to-cash flow multiple of 9.3, all of which are in line with the company's five-year historical average multiples of 2.3, 3.5, and 9.2, respectively. The stock appears to be fairly valued, but when you consider the amount of free cash flow growth potential, I think the stock is a great buy for an income investors with a long-term time horizon.

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