TransCanada Corporation Continues to Post Strong Earnings With its Latest Quarter

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) released its second-quarter earnings on Friday which showed revenues totaling $3.2 billion for the quarter, up 17% from 2016. Earnings also saw an increase of 80% from last year's $366 million, up to $659 million for this current quarter. On a per-share basis, earnings were $0.76 in Q2 compared to $0.52 a year ago.

Segment analysis

TransCanada saw the biggest improvement in its earnings come from its Mexico natural gas pipelines segment, which totaled $120 million this quarter and was up almost triple the $41 million in earnings in contributed a year ago. This big increase in earnings was primarily due to new projects contributing in 2017 that were not present a year ago.

U.S. natural gas pipelines saw the next biggest increase, with earnings more than doubling from last year's $188 million to over $401 million in 2017. Most of this increase came as a result of TransCanada's acquisition of the Columbia Pipeline, which contributed $136 million in earnings this quarter. Without Columbia, the increase in earnings for this segment would been just 41% year over year.

The pipelines in Canada, however, were the only operating segment to show a decline, dropping from $342 million a year ago to $305 million this quarter. Other segments for TransCanada include its liquids pipelines, which were up 27% year over year, and the energy segment, which saw increases of 74%. Total earnings among all the segments showed an increase of over 50% from the prior year.

Improving cash flows and lower debt levels

TransCanada also saw an improvement in its cash flows with $1.3 billion in cash coming from the company's operations for an increase of $200 million from the prior year. The company also had over $4.1 billion come in as a result of the sale of its U.S. northeast power assets. TransCanada took this opportunity to pay down over $4 billion of its existing long-term debt.

Overall, TransCanada has been able to decrease its debt by over $7 billion since the start of the year. The company's debt-to-equity ratio at the end of 2016 was over 1.47 and has been reduced to 1.19. TransCanada does not have much in the way of current assets, with less than $5 billion compared to the over $10 billion it has for its current liabilities, resulting in a ratio of just 0.49. Although this may not be an ideal situation, the company has many long-term contracts and consistent streams of revenue to compensate for this thanks in large part to the company's long-term investment strategy.

Capital investments continue to grow

The company continues its commitment to capital expenditure that fosters long-term contracts and stability. In Q2, capital expenditures of $1.7 billion were up from just $982 million in the year prior. TransCanada's capital program focuses on " long-life infrastructure assets [that] are supported by long-term commercial arrangements with creditworthy counterparties or regulated business models and are expected to generate significant growth in earnings and cash flow."

Bottom line

The company's stock price has been up and down this year with a total year-to-date return of just over 5%. However, over the past five years, the stock has yielded a return of over 42%. TransCanada also offers a good dividend of just under 4% annually that is paid out quarterly. This is a good long-term investment that can present a lot of upside, especially with a more oil- and gas-friendly government south of the border and as Keystone XL progresses.

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