What Does the Suspension of the Energy East Pipeline Mean for Investors?

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) recently announced that it wanted to suspend the application it had made for the Energy East pipeline for 30 days, so it can evaluate the project and decide whether it is still going to move forward with it.

The proposed pipeline would span 4,500 kilometres, ranging from Alberta all the way to New Brunswick. The project would make it easier to transfer oil in Canada and make parts of the country less reliant on foreign oil. The reason for TransCanada's decision to suspend its application is because the National Energy Board, which is reviewing the project, has expanded its review to consider the impact of both upstream and downstream emissions from the proposed pipeline. The concern for TransCanada is how this will impact its costs by having to meet additional demands.

The suspension of the application could just be the first step towards the ultimate cancellation of the $15.7 billion pipeline project.

What does this mean for investors?

This development could be a big blow to investors of TransCanada if the company backs out of the project, which would have seen 1.1 million barrels of crude transported daily as a result of the pipeline and would have resulted in significant growth to the company's top and bottom lines. Other concerns include what this could mean for future projects for the company and that growth in Canada might be limited, especially with a government that has not been oil and gas friendly.

Many oil and gas companies have already scaled back capital spending as a result of a poor price of oil, and increasing government regulation doesn't offer any incentive to change that.

Is it worth investing in oil and gas?

As the country puts more focus on climate change and creates policies that restrict the oil and gas industry, it may no longer be a good place to put your money, especially if you are counting on domestic growth. With a carbon tax already in place, and governments that are trying to make the country less reliant on oil and gas, the opportunities for growth in the industry might be limited.

The one saving grace is that south of the border, the U.S. does have a more oil- and gas-friendly government, and with many Canadian oil and gas companies having operations in the U.S. as well, it may not be all doom and gloom just yet.

Is TransCanada still a good investment?

Investors haven't had much of a reaction to the company's hesitation on the project, and that may not come until after a decision is made, as a healthy dose of pessimism has likely already been priced into the share price. TransCanada has seen significant growth, even during the downturn in the oil and gas industry as revenues of just under $8.8 billion in 2013 have grown to over $12.5 billion in 2016 for an increase of 42% during that time.

The share price has only yielded investors returns of 2% this year but with dividends of 4%, it does give you some incentive to buy and hold. However, given the current economic conditions and all the uncertainty around major projects like Energy East and Keystone XL, I would hold off until one of those projects gets approved before investing.

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