Should the Energy East Cancellation Scare Oil and Gas Investors?

Description

On October 5, **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) announced that it would cancel its $15.7 billion Energy East pipeline and Eastern Mainline projects. The response from the stock was surprisingly mute, and it actually ended the week in the black — up 1% since the news. The company will likely incur a $1 billion after-tax non-cash charge in the fourth quarter.

Experts and analysts blamed the tumultuous world market and weak oil prices. This make be the case, but should investors be concerned about the growth potential for Canada's oil and gas giants moving forward?

Kinder Morgan Canada Ltd. (TSX:KML) was ordered to cease elements of its $7.4 billion Trans Mountain pipeline expansion in late September. The Canadian National Energy Board (NEB) sent a letter ordering a stop to operations that were allegedly not yet approved. The NEB is obligated to determine the course of the route which has delayed construction.

In spite of complications, Kinder Morgan has increased 5.4% since its initial public offering on May 30, 2017. When it released its second-quarter results in July, the company projected that the Trans Mountain project would be in service by the end of 2019. The stock still boasts a dividend of $0.06 per share, representing a 3.8% dividend yield.

Enbridge Inc. (TSX:ENB)(NYSE:ENB) has been locked in its own battle, this time with the Minnesota state government over a portion of its Line 3 pipeline expansion. Public hearings have already begun and will be held until November 15 to determine whether or not the project makes sense for the state. There have been significant protests from environmentalists, landowners, aboriginals, and other groups against the project.

Enbridge has not responded well to weak oil and the uncertainty of some of its projects. The stock has fallen 8.3% in 2017 and 9.2% year over year. However, it still boasts a dividend of $0.61 per share with a 4.7% dividend yield.

The news surrounding **Suncor Energy Inc.** (TSX:SU)(NYSE:SU) and its stock performance has been far more inspiring. Shares have increased 9.5% month over month as of close on October 6. There has been concern over the future of the western oil sands, but Suncor CEO Steve Williams expressed enthusiasm that the industry had the ability to sustain long-term success. He acknowledged the climate change issue and was confident that new technologies would mitigate the risks for oil and gas companies.

Should investors still be optimistic about growth in oil and gas stocks?

The Energy East pipeline was victim to a number of factors, including oil prices that have not bounced back from the 2014 crash and the surprise approval of the Keystone XL pipeline from the Trump administration. TransCanada posted strong second-quarter results with earnings per share up over 40%.

Even with its recent battles, Enbridge has major projects in its pipeline and can afford the reorientation if Minnesota ultimately balks. Kinder Morgan should also survive its bout with red tape.

If oil prices remain low, these companies will see a cap on stock growth, but each offers solid dividends for income investors.

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