Why TransCanada Corporation's Stock Might Take Off Despite a Mediocre Q3

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) released its third-quarter results last week. The company saw a considerable improvement in its bottom line with profits of $612 million up from a loss of $135 million a year ago. However, revenue for the quarter of $3.2 billion was down 11% year over year, but it was very similar to Q2 numbers.

Let's take a closer look at the results and assess if TransCanada is a good buy today.

Decrease in operating expenses helps the company finish in the black

Although revenue was down for the quarter, TransCanada saw nearly $1.5 billion shaved off its operating expenses. The biggest improvement was a lack of impairment charges, whereas last year the company had write downs of more than $1 billion.

Plant operating costs decreased by $200 million and commodity purchase resold costs were also down $162 million.

These reductions helped TransCanada finish with pre-tax earnings of $884 million compared to a pre-tax loss of $322 million in the prior year.

However, the company's comparable earnings for the quarter were $614 million and less than the $622 million that TransCanada achieved in the prior year.

Comparable earnings exclude irregular items like gains and losses, impairment, acquisition-related costs, and other expenses that are not relevant for the purpose of comparing one period to the other.

Energy East cancellation will cost $1 billion next quarter

Last month, TransCanada announced it was cancelling the Energy East pipeline after having to meet more stringent requirements for the project. The company expects to posts a $1 billion after-tax charge to its financials in Q4 related to the cancellation.

Despite the disappointing end to the Energy East project, TransCanada's CEO was not discouraged, stating in the earnings release that "we continue to progress a number of additional medium to longer-term organic growth opportunities in our three core businesses."

Capital projects expected to fuel strong dividend growth

In its earnings release, TransCanada also stated that "we continue to progress $24 billion of other near-term capital projects that are expected to generate significant growth in earnings and cash flow and support an expected annual dividend-growth rate at the upper end of an 8-10% range through 2020."

The company has increased dividends in each of the past five years, averaging an increase of over 7% each year, although the last rate hike was more than 10%. Currently, the stock pays investors a yield of 4%.

Keystone XL decision from Nebraska expected this month

The Nebraska Public Service Commission held public hearings back in August and is expected to make a decision on the Keystone XL pipeline before the end of November. Nebraska is the last of three states needed to approve the pipeline, with Montana and South Dakota already having given the green light to go ahead.

Is the stock a buy?

TransCanada's stock has been very up and down this year, and since January returns have been less than 4%. A big approval for the Keystone XL, however, could be what sends the stock soaring.

Despite the company's lacklustre results this quarter, strong growth opportunities, along with a growing dividend, make TransCanada a great long-term buy, especially as the oil and gas industry continues its recovery.

CATEGORY

1. Energy Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:TRP (Tc Energy)
2. TSX:TRP (TC Energy Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Energy Stocks
2. Investing

Date
2025/07/20
Date Created
2017/11/13
Author
djagielski