Why TransCanada Corporation Is a Great Buy Ahead of Earnings

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) has earnings coming up before the end of the month, and with the stock seeing heavy declines over the past several months, it might be a good time to buy, as the share price could get a boost from a good quarter.

Despite a sound financial performance, TransCanada's stock has lost 15% in value in the past year, and that's actually a good result for an oil and gas stock, as we've seen **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) decline more than 27% during that time. Meanwhile, **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) has had a more modest drop of just 14%, although that is thanks to a recent rally; otherwise, it would have seen an even steeper drop in price.

No issues relating to the company that should raise alarm bells for investors

The only justifiable reason for the drop off in price is that investors are simply bearish on the industry as a whole. TransCanada has done a fine job, despite a low price of oil, with sales being slightly down in its most recent quarter, although profits of over $900 million were a big improvement over the loss that the company posted a year ago. Over the past four quarters, TransCanada has averaged a very strong profit margin of over 23%.

However, one challenge for the company has been free cash flow, which it has struggled to accumulate; year to date, it has negative free cash of $2.3 billion. A big reason for that is the company's continued capital spending, which is a big positive for the industry.

From a financial perspective, there are no issues that should be raising red flags for investors to sell. On the contrary, TransCanada is one of the largest and most stable stocks on the TSX and is a great option to hold long term in your portfolio. Over the past five years, in the midst of the downturn, TransCanada's stock has risen 10% and outperformed both Enbridge and Cenovus by vast margins.

Is the stock at a good price to buy today?

TransCanada's share price hit a new 52-week low earlier this month, and it has started to find some momentum since then, so it could be a safe time to buy the stock, as there is evidence it may have reached a bottom. Currently, TransCanada's stock trades at only 15 times its earnings and a little more than twice its book value, making it a very low price to get in.

Although investors are worried about all the issues we've seen with oil and gas in the past year, ranging from unstable oil prices to cancellation of projects, and now this latest turmoil surrounding the Trans Mountain pipeline, there is still reason for optimism. Oil prices remain strong and are near US$70, and the industry is starting to show signs of life. TransCanada also received the approval to go ahead with its Keystone XL project earlier this year, which will result in a lot of growth for the company.

It may not be popular to invest in oil and gas today, but it's a good way to position your portfolio for significant returns as we see the industry continue to recover.

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