TransCanada Corporation’s Q1 Fails to Impress: Is Now the Time to Buy?

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) released its quarterly earnings last week, which showed the company beating expectations in its first quarter. Analysts were expecting adjusted per share earnings of $0.84, well below the $0.98 that TransCanada finished at for Q1. However, revenues were only up ever so slightly as its top line grew from $3.41 billion a year ago to just $3.42 billion this past quarter.

Let’s take a closer look at the results and assess just how well TransCanada did in its most recent quarter.

Segmented earnings down from a year ago

Although the company had a strong quarter, there wasn’t a big improvement from its operations. Segmented earnings were actually down from a year ago as earnings from its energy segment declined 75% and Canadian natural gas profits were down more than 10%.

There were some bright spots, however, as earnings from liquid pipelines were up more than 50% year-over-year and U.S. natural gas pipelines improved by 16%. Overall, there wasn’t a lot of consistency in the company’s performance when considering its various segments, and the net effect was a slight decline.

What was behind the profit growth?

TransCanada got a boost from its interest and other income, which grew by $43 million this quarter, as pre-tax earnings before this line item would have totaled just $926 million, compared to $954 million a year ago.

In addition to other income, the company’s income tax expenses were down by nearly $80 million this quarter. With net income rising by $94 million in Q1, these two items contributed more than that amount and helped the company avoid a decline from one year earlier.

Investors not impressed with the results

Despite the earnings beat, investors were not excited by TransCanada's results, as the stock didn't show any momentum as a result of the improved performance for the quarter. With poor revenue growth for the quarter, these results do nothing to convince investors to buy the troubled stock, which has seen its share price drop 12% since the start of the year.

Does the stock present good value?

Currently, TransCanada stock trades at just 15 times its earnings and is valued around two times its book value, making it an appealing value investment for a stock that should have more upside, especially as oil prices continue to rise.

Why the stock might be a good buy today

Despite the bearish outlook on the industry and TransCanada stock, there is much to like about this investment. For one, the company is one of the largest on the TSX and will provide investors with a lot of stability. As well, the company's dividend is yielding 5% and will provide you with great cash flow while you wait for the share price to gain some momentum. Finally, with the oil and gas industry continuing to recover, it'll only be a matter of time before TransCanada's stock starts to see the light of day again.

Although doom and gloom weighs heavily on oil and gas investors these days, especially as we see pipelines get cancelled and disputes arising about potential pipelines, there is simply too much demand for oil amid rising gas prices for the Canadian government not to try to spearhead more growth in the industry.

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