3 Reasons TransCanada Corporation (TSX:TRP) Is a Good Buy After its Q2 Results

Description

TransCanada Corporation (TSX:TRP)(NYSE:TRP) released its second-quarter results last week, which weren't any better than the company's Q1 results back in May. Revenues for this quarter came in at just under $3.2 billion, down 1% from last year. Meanwhile, earnings attributable to common shareholders were down by 11%.

At first glance, the results were largely unimpressive. However, that doesn't tell the whole story, and there are three reasons I'd still consider TransCanada a good buy today.

TransCanada showed improved efficiency this quarter

When looking at the income attributable to shareholders, it appears that it was a less impressive quarter than a year ago, but that wasn't the case. Its operating and other expenses were down 17% from a year ago, with plant operating costs and other costs declining by 20%.

The main reason last quarter's earnings were stronger was due to an asset sales, which generated a gain of just under $500 million. Without the gain, pre-tax earnings would have totaled just $870 million last year, and this year's tally of $1.055 billion would have been well above that.

The company is building for growth

TransCanada has many projects on the go as it looks to take advantage of a stronger oil and gas industry and higher commodity prices. In its earnings release, CEO Russ Girling said, "With our existing asset portfolio benefiting from strong underlying market fundamentals and $28 billion of near-term growth projects, including maintenance capital expenditures advancing as planned, earnings and cash flow are forecast to continue to rise."

However, he pointed out that the company is looking at building for the long term as well, "We continue to methodically advance more than $20 billion of medium to longer-term projects including Keystone XL, Coastal GasLink and the Bruce Power life extension agreement. Success in advancing these and/or other growth initiatives associated with our vast North American footprint could extend our growth outlook beyond 2021."

There's a lot of opportunity for the company to continue to grow, which could provide shareholders with a lot of stability and the opportunity to benefit from capital appreciation. While TransCanada didn't show any strong growth this quarter, since 2013, its sales have risen by more than 52%, while profits have grown by 77%.

Even during the downturn in the industry, TransCanada was still able to generate strong sales growth, although profitability did take a bit of hit during that time. There's lot of potential for TransCanada to produce even strong results, especially once the Keystone XL is put in place.

The stock provides great value and a strong dividend

TransCanada's stock didn't get much of a boost from the earnings result, and year to date, the stock has been down around 4%. Although that's not great news, it's also not as bad a fate as others in the industry have suffered, as investors remain hesitant to place big best on oil and gas stocks.

TransCanada's stock trades at a modest 17 times earnings and a little more than twice its book value and could be a great value buy, especially when you consider its growing dividend.

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Date
2025/08/23
Date Created
2018/08/07
Author
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