1 Beaten-Down TSX Stock to Buy for a Longer Horizon

Description

So far this year, **TC Energy** (TSX:TRP)(NYSE:TRP) has underperformed the broader equity market. The company has lost 16.1% of its stock value, whereas the S&P/TSX Composite Index has declined by 9.1%.

The lower level of economic activities amid the pandemic-led lockdown is resulting in a decline in demand for crude oil and natural gas. Besides, excess supply remains a drag. The demand-supply imbalance and lower prices are not an ideal situation for midstream companies like TC Energy, as it reduces the throughput and revenues.

With the economy still in the grips of the pandemic, I expect the demand to be on the lower side in the near term, which could hurt TC Energy's performance. However, I believe these issues could abate soon, and TC Energy stock will bounce back given its low-risk and diversified business and strong cash flows.

TC Energy's growth prospects

Despite the impact of the COVID-19 outbreak, TC Energy posted year-over-year growth of 6.4% and 10.3% in its adjusted EBITDA and adjusted EPS, respectively, for the quarter ended March 31. During the last quarter's conference call, the company's management stated that 95% of its adjusted EBITDA comes from its regulated assets or long-term contracts. What it means is that volatility in commodity prices and lower throughput will have minimal impact on its EBITDA.

Further, TC Energy had announced that it was moving ahead with the construction of the Keystone XL pipeline project, which would strengthen its competitive positioning.

The project would require an estimated additional investment of US$8 billion and is likely to be completed in 2023. With a 20-year contract, the project would supply 575,000 barrels of crude oil every day. Once operational, the project could add US$1.3 billion of adjusted EBITDA to TC Energy every year.

Apart from the Keystone XL pipeline project, TC Energy continues to make advancements in secured growth projects worth $43 billion. Once completed, the company's 98% of the adjusted EBITDA will come from regulated assets or long-term contracts. So, these projects provide excellent growth prospects for the company.

Liquidity and dividend yield

With the contribution from both the projects that entered the service this year and legacy assets, TC Energy generated net cash of $1.7 billion from its operations in the first quarter. Meanwhile, the company's cash and cash equivalents at the end of the quarter stood at $1.9 billion. Further, the company raised $9 billion of capital in April through various offerings. So, the company is well capitalized to fund its ongoing projects.

Through its consistent cash flows, TC Energy has boosted its shareholders' value by raising dividends for the past 20 consecutive years. From 2015 to 2019, the company has raised its dividends at a CAGR (compound annual growth rate) of 9.6%. Further, the company expects to increase its dividends by 8-10% in 2021 and 5-7% after that.

On May 1, TC Energy's board announced quarterly dividends of $0.81 per share at an annualized payout rate of $3.24 per share. As of June 30, the company's dividend yield stood at 5.6%.

Bottom line

Despite these strong growth prospects and high dividend yield, TC Energy is trading at a discount. TC Energy trades at a forward P/E multiple of 14.2 compared to its average P/E multiple of 16.6 over the last three years. So, investors with a longer horizon should look to accumulate the stock given its strong growth prospects, high dividend yield, and attractive valuation multiple.

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