



Warren Buffett Spends \$10 Billion on a Natural Gas Transmission Deal: Should You Buy TC Energy (TSX:TRP) Stock Now?

Description

Warren Buffett's **Berkshire Hathaway** is finally making its first big [contrarian](#) investment during the coronavirus pandemic.

Betting on natural gas

Berkshire's energy division has agreed to buy the natural gas transmission assets of **Dominion Energy**. The deal is for US\$4 billion plus the assumption of roughly US\$6 billion in debt. After the deal closes later this year, Berkshire Hathaway Energy will control 18% of interstate natural gas transmission in the country compared to its current 8% level.

The deal gives Berkshire significant new natural gas transmission assets as well as a 25% stake in a strategic facility that focuses on the storage, export, and import of liquefied natural gas (LNG).

The move could put a new tailwind behind the North American energy infrastructure sector. Oil and gas producers are in a slump. Capital expenditures are being deferred or shelved. In some areas, such as U.S. shale, major players are going bust.

Berkshire obviously sees long-term opportunity for natural gas and the global LNG market. Low natural gas prices in the United States late last year drove strong U.S. LNG exports, but the market tanked in recent months.

In a June report from the U.S. Energy Information Administration (EIA), falling demand and a plunge in natural gas prices in Europe and Asia means American LNG exports will drop from roughly 8.1 billion cubic feet per day (Bcf/d) in January to an anticipated 3.2 billion Bcf/d in July 2020.

The crash in natural gas prices in Europe and Asia to record lows makes U.S. exports of LNG unprofitable.

The U.S. ramped up LNG capacity in recent years, with a strong surge in 2019. The country is now the

number three exporter of LNG behind Qatar and Australia. Historically, natural gas prices in Europe and Asia have been much higher than those the market sees in Canada and the United States, so there has been an opportunity to make money on the spread through LNG shipments.

Due to the severe change in the market, the EIA predicts U.S. LNG capacity utilization will be 50% or lower through the end of August.

Warren Buffett is famous for saying investors should be greedy when everyone else is fearful. This appears to be the case again with the latest deal.

Should you buy TC Energy?

TC Energy ([TSX:TRP](#))([NYSE:TRP](#)), formerly TransCanada, is a leading natural gas transmission player with pipeline and gas storage assets in Canada, the United States, and Mexico.

TC Energy spent US\$13 billion in 2016 to buy Houston-based Columbia Pipeline Group. The deal, which included US\$2.8 billion in debt, created one of North America's largest regulated natural gas transmission businesses. The purchase was done at an 11% premium to the closing price before the announcement and a 32% premium based on the 30-day weighted average price.

The move positioned TransCanada to be a key player in the transport of natural gas to LNG terminals. At the time, Columbia Pipeline owned one of the largest interstate natural gas pipeline systems in the United States.

TC Energy currently trades near \$58 per share and provides a 5.6% dividend yield. The stock was above \$76 in February, so there is decent upside potential on a rebound. TC Energy has a \$43 billion secured capital program and is advancing more than \$10 billion of projects in development.

The board plans to raised the [dividend](#) by 8-10% in 2021 and 5-7% per year in the following years.

Takeover target?

TC Energy currently has a market capitalization of \$54 billion, or about US\$40 billion. This would be a big target for Berkshire, but the giant has the funds. In fact, Berkshire had roughly US\$137 billion in cash to spend as of May 2020, so it certainly has the ability to take a run at TC Energy if it sees value in expanding its natural gas transmission holdings.

I wouldn't buy TC Energy stock hoping for a big buyout premium, but it appears cheap today and pays a great dividend. A takeover bid would simply be a bonus.

If you have some cash available, the stock deserves to be on your radar. The new Berkshire deal in the natural gas transmission sector could bring a wave of investors into TC Energy in the coming months.

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Date

2025/08/26

Date Created

2020/07/06

Author

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