Is TC Energy (TSX:TRP) Still a Buy After Keystone XL Was Scrapped?

Description

It's important to keep your promises, especially when you are in a position of power, because if you can't, people who follow you will have difficulty trusting you in the future. So, President Joe Biden's decision to adhere to one of his major promises (to revoke the Keystone XL pipeline's presidential permit) was a good act that endorsed his integrity and resolves.

At the same time, the decision cost a major Canadian energy player, **TC Energy** (TSX:TRP)(NYSE:TRP), about $2.2 billion in impairment charges alone. Even though the U.S. president revoked the permit soon after he took office, the company officially scrapped the project only recently.

The good news for investors is that so far, the decision hasn't hampered TC Energy's recovery/growth, but it *will* (most likely) have significant negative consequences for the company.

TC Energy stock

Right now, TC Energy stock is quite attractive. It's offering a juicy 5.4% yield, and it raised its dividends for 2021 by the same dollar amount ($0.06 per share) that it has since 2018. The payout ratio is relatively high, but the company has been growing its revenues consistently since the significant slump in the second quarter of 2020, so the chances that its dividends will become "safer" in the near future are pretty high.

Even though its dividends are a major attraction, the stock currently offers decent capital appreciation prospects as well. It's still trading at over a 15% discount from its 2020 peak, and the stock is moving towards that mark. It has grown almost 23% since the beginning of the year, and if it can keep riding the energy sector's recovery momentum, it might reach its peak valuation by the end of the year.

The valuation, while not quite attractive, is also not off-putting. The price-to-earnings multiple is 27, and the price-to-book multiple is at 2.3 times.

TC Energy’s future

While the opposition hails it a victory, pulling the plug on Keystone XL is a major blow to the company, and its impact will go beyond the financial writedown the company recently booked. The pipeline would have grown Canadian export capacity by 830,000 barrels per day. Now that it has been suspended, several stakeholders will have to look to costly alternatives to leverage the U.S. market.

Even though the stock looks promising for now, the energy sector *might* be moving towards a relatively bleak future. Keystone XL, while a massive blow to the North American energy sector, isn’t the only blow the sector has recently experienced. Ironically, the energy demand is not diminishing anytime soon. By choking off the supply lines this way, activists might be forcing energy companies to explore costlier and potentially more dangerous transportation alternatives (railway, trucks, etc.).

Foolish takeaway

TC Energy *is* a relatively attractive buy right now, and it might remain a good holding for a few years at least, but you have to keep the changing dynamics around energy in mind. If more dominos (energy projects) keep falling, energy companies will be trapped between restrictions and raising costs, neither of which would bode well for the stock price and dividends. You might consider buying TC Energy, but be prepared to sell it before it becomes a costly liability.

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