Up Over 24%: Will the Uptrend in TC Energy (TSX:TRP) Continue?

Description

TC Energy (TSX:TRP)(NYSE:TRP) is a midstream energy company that owns and operates a grid of natural gas and liquids pipelines, power–generating assets, and storage facilities. Supported by its solid fourth-quarter performance and rising energy demand due to economic expansion, the company has returned close to 24% for this year, comfortably outperforming the broader equity market. Can the uptrend continue?

Before answering that question, let's first look at TC Energy's fourth-quarter performance and growth potential.

TC Energy's fourth-quarter performance

For the quarter, TC Energy reported adjusted net profits of $1 billion, or $1.06 per share, compared to $1.15 per share in the corresponding quarter of the previous year. The decline was primarily due to the issuance of common shares to raise funds to complete the acquisition of TC Pipelines in the first quarter of 2021.

However, its adjusted EBITDA increased by $81 million to $2.4 billion due to an increased contribution from the U.S. Natural Gas Pipelines segment and the Power and Storage segment. However, the decline in contributions from the Liquids Pipelines segment and the Canadian Natural Gas Pipelines segment offset some of the increases. Meanwhile, the company's financial position looks healthy, with the company having $12.4 billion of unused debt facilities as of February 7.

Growth prospects

Amid economic expansion, the energy demand is rising, benefiting TC Energy. The company had placed $4.1 billion of projects into service last year. The company is progressing with its $24 billion, including $6.5 billion of projects expected to enter service in 2022. These projects could expand and extend the company's presence across North America. Also, these projects are underpinned by cost-of-service regulations or take-or-pay contracts, thus delivering stable and predictable financials in the coming years.

Supported by its strong underlying business and its investments, TC Energy's management expects to grow its adjusted EBITDA at a CAGR of 5% through 2026. So, the company's outlook looks healthy.

TC Energy's dividend and valuation

TC Energy has an excellent track record of rewarding its shareholders with dividend hikes. It has increased its dividend uninterrupted for the last 22 years at a CAGR of 7%. Its stable and predictable cash flows from regulated assets have allowed the company to increase its dividend. The company currently pays $0.90 per share, with its forward yield at 4.97%. Given its optimistic outlook, the company's management hopes to increase its dividend by 3-5% in the near to medium term.

Despite rising close to 24% this year, the company is still trading at an attractive price-to-earnings multiple of 17.1.

Bottom line

Amid the ongoing Russia-Ukraine war and the sanctions on Russian oil, I expect oil prices to trade at elevated levels in the near to medium term. So, the increased oil prices could drive the demand for TC Energy's services, thus increasing its asset utilization rate and boosting its financials. So, given the favourable environment and its growth initiatives, healthy dividend yield, and attractive valuation, I am bullish on TC Energy.

Meanwhile, analysts favour a "hold" rating for TC Energy. Of the 23 analysts covering the stock, 14 have issued a "hold" rating, while six have given a "buy" rating, and the remaining three have given a "sell" recommendation. Analysts' consensus price target represents a potential fall of 1.4% from its current levels.

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