TC Energy Stock Is Down 18%: Here’s Why it’s a Buy on the Dip

Description

TC Energy (TSX:TRP) is in the headlines, because its Keystone pipeline reported its biggest oil spill (an estimated 14,000 barrels). Although the company has resumed operations of the undamaged parts, the cost of cleanup and lost revenue will impact TC Energy’s earnings. The stock fell 18% in a month and is now trading (at $54) closer to its 52-week low of $53.53. Is this energy stock a buy on the dip?

Behind TC Energy’s stock price dip

Before you decide on buying a stock at the dip, you should understand the reason for the decline. Then evaluate the severity of the impact (short term or long term) and whether the company has enough financial bandwidth to withstand the loss. As a pipeline company, TC Energy has exposure to the risk of damage to the infrastructure or any outage. Hence, the company keeps aside some funds for contingencies.

TC Energy reports risk-management activities as an expense. These activities include risks related to pipelines and foreign exchange. In the nine months to September, risk-management expenses from liquid pipelines were $58 million. You can expect a higher risk management expense for the next few quarters.

The Keystone pipeline has been in controversies since it started operating in 2010. Over these years, the pipeline has had 22 oil spills, of which three major spills occurred in 2017, 2019, and 2022. According to an *NPR* article, experts suggest that the latest Keystone leak spilled tar-sands crude oil, which is more difficult, expensive, and toxic to clean than a traditional oil spill. Previously, a tar-sands crude oil occurred in July 2010 from **Enbridge** Energy Partners’s ruptured pipe. The cost of clean-up went over $1 billion.

TC Energy earned about 12% of its comparable EBITDA (earnings before interest, taxes, depreciation, and amortization), or $292 million, from the Keystone pipeline in the third quarter. While the oil spill will impact TC Energy's short-term earnings, its long-term target remains unaffected. The company has been offloading oil pipelines from its portfolio, as it transitions to the gas and power utility business.

Why is TC Energy stock a buy at the dip?

At the 2022 investor day presentation, TC Energy highlighted its four-year growth plan from 2022 to 2026. It plans to execute a $34 billion secured capital program by 2026. The upcoming projects are expected to increase comparable EBITDA at a compound annual growth rate (CAGR) of 6%. This EBITDA growth might grow dividends by 3-5%.

Even if the oil spill clean-up costs go to a billion dollars, TC Energy is unlikely to cut dividends and break its 22-year record of 6% dividend CAGR. In the 2017 and 2019 Keystone oil spill events, TC Energy increased its dividend per share by 10.4% and 8%, respectively, in the following years. After the 2017 oil spill, TC Energy's stock price fell 18% in 2018, but it recovered in 2019, surging 40%.

The pipeline business is resilient to macroeconomic situations. TC Energy is better placed than in 2019, as the global energy crisis has inflated oil and gas prices. North America has a new market for its natural gas after Europe stopped using Russian gas. Canadian and American pipeline companies could benefit from growing volumes of energy exports to Europe.

How to maximize returns from the market dip

As we enter 2023, several factors point to economic recession, especially in the United States. The overall economic weakness could keep TC Energy's stock in a bearish phase through 2023. If you invest $500/month in TC Energy's dividend-reinvestment plan (DRIP) in 2023 at an average cost of $54-$60, you can lock in a 6% dividend yield.

By the start of 2024, you would have purchased 114 shares of TC energy at an average cost of $57. If TC Energy grows its dividend by 2% to $4.3 in 2023, your 114 shares could earn $450 in annual dividends. When the economy revives and the company's natural gas projects come online, the stock could return to its bullish price of $64, representing a 12% capital appreciation of your $6,000 investment.

TC Energy is a fundamentally strong stock that is a buy on the dip.

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