

## TC Energy Corporation (TRP)

**\$53.77** (As of 01/16/20)

Price Target (6-12 Months): **\$62.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 01/15/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:D

Value: C

Growth: D

Momentum: D

### Summary

TC Energy is mainly a natural gas pipeline operator with operations spanning Canada, the US & Mexico. It has outperformed the Zacks Oil & Gas-Prod/Pipeline industry over the past year (+35.2% vs.+6.7%) & looks well positioned for further price appreciation. A quality stock with industry leading wide moat assets, TC Energy has a secured portfolio of C\$30 billion in growth projects, helping itself significantly improve its backlog of near-term commercial projects. This should support the company's stated dividend growth commitment of 8-10% annually out to 2021. It has a long & consistent dividend paying record. Underpinned by long-term contracts, TC Energy's low-risk, recession-proof business model offers investors rock-solid revenue & cash flow stability. Given these tailwinds, the stock buoys investor confidence.

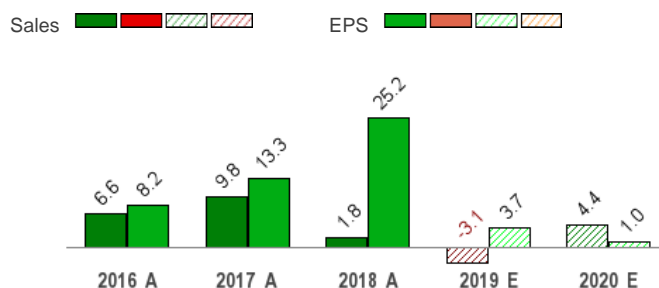
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$53.95 - \$40.76</b>
20 Day Average Volume (sh)	<b>1,523,169</b>
Market Cap	<b>\$50.2 B</b>
YTD Price Change	<b>0.9%</b>
Beta	<b>0.78</b>
Dividend / Div Yld	<b>\$2.31 / 4.3%</b>
Industry	<a href="#">Alternative Energy - Other</a>
Zacks Industry Rank	<b>Top 30% (77 out of 254)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>4.0%</b>
Last Sales Surprise	<b>NA</b>
EPS F1 Est- 4 week change	<b>0.8%</b>
Expected Report Date	<b>02/13/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>17.2</b>
P/E F1	<b>17.2</b>
PEG F1	<b>3.4</b>
P/S TTM	<b>4.8</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					10,675 E
2019	2,623 A	2,521 A	2,373 A		10,226 E
2018	2,709 A	2,476 A	2,434 A	2,954 A	10,555 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.84 E	\$0.74 E	\$0.74 E	\$0.80 E	\$3.12 E
2019	\$0.80 A	\$0.75 A	\$0.79 A	\$0.75 E	\$3.09 E
2018	\$0.78 A	\$0.66 A	\$0.76 A	\$0.78 A	\$2.98 A

\*Quarterly figures may not add up to annual.

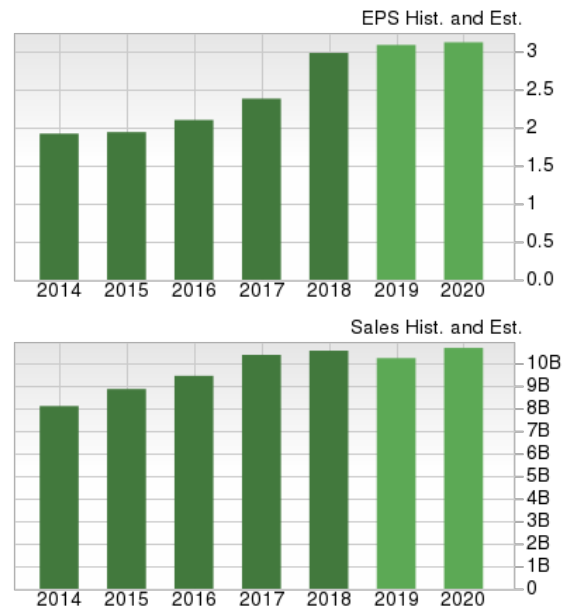
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

## Overview

Calgary, Alberta-based TC Energy Corporation is a premier energy infrastructure provider in North America. Established in 1951, the company is primarily focused on natural gas transmission through its 57,500-mile network of pipelines located in Canada, the United States, and Mexico. TC Energy is also involved in other businesses, including power generation, natural gas storage, and crude oil pipelines.

The company operates in five segments:

- Canadian Natural Gas Pipelines:** It comprises TC Energy's investments in approximately 25,121 miles of regulated natural gas pipelines. Canadian Natural Gas Pipelines segment contributed 28% of the company's 2018 earnings.
- U.S. Natural Gas Pipelines:** It includes TC Energy's interests in roughly 30,931 miles of regulated natural gas pipelines, 535 billion cubic feet of regulated natural gas storage assets, midstream as well as other properties. The unit also comprises TC Energy's 25.7% ownership in TC PipeLines L.P., a publicly-traded master limited partnership that owns, operates, develops and acquires pipelines and other midstream assets. U.S. Natural Gas Pipelines segment contributed 34% of the company's 2018 earnings.
- Mexico Natural Gas Pipelines:** It comprises of TC Energy's investments in about 1,044 miles of regulated natural gas pipelines. Mexico Natural Gas Pipelines segment contributed 7% of the company's 2018 earnings.
- Liquids Pipelines:** It includes TC Energy's interests in approximately 3,030 miles of oil pipeline systems that transports crude supplies from Alberta and U.S. to U.S. refining markets in Illinois, Oklahoma and Texas. Liquids Pipelines segment contributed 22% of the company's 2017 earnings.
- Power and Storage:** It mainly focuses on TC Energy's investments in 11 electricity generation facilities (creating a combined capacity of approximately 7,000 megawatts) and 118 billion cubic feet of non-regulated natural gas storage assets. Energy segment contributed 9% of the company's 2018 earnings.



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## Reasons To Buy:

- ▲ One of the largest pipeline operators in the North American energy space, TC Energy's primary focus is on its massive network of natural gas transmission assets that cater to around 25% of the continental consumption. The company's wide array of natural gas midstream properties positions it for a solid long-term future as demand for the commodity soars, spurred by its cost effectiveness, the secular shift to the cleaner burning fuel for power generation and abundant supply in North America.
- ▲ In 2016, TC Energy acquired U.S. midstream operator Columbia Pipeline Group Inc. for \$13 billion. Apart from scale advantages and increasing network reach, the Columbia Pipeline buy helped the company to significantly improve its backlog of near-term commercial projects. Currently, TC Energy's portfolio includes around C\$30 billion of accretive growth projects to be placed into service through 2023. Of this, around C\$10 billion worth projects are expecting completion by year-end.
- ▲ The strong inventory of near-to-medium-term growth projects should support continued gains in TC Energy's earnings and cash flow. Further, with around 95% of the company's cash flow coming from secure, regulated assets backed by long-term contracts, TC Energy is exposed to minimal commodity price exposure and volume risks. In other words, the core business of TC Energy provides for highly stable and predictable cash flows. Comparable distributable cash flow (DCF) in the third quarter was C\$1.6 billion (C\$1.78 per share) compared with C\$1.4 billion (C\$1.56 per share) in the corresponding period of 2018.
- ▲ TC Energy has a long and consistent dividend paying record. The energy infrastructure operator, which announced a 8.7% hike in its quarterly payout for the first-quarter 2019, has increased dividends in each of the last 19 years. Considering the company's low-risk operational profile and predictable cash flows, its stated dividend growth commitment of 8-10% annually out to 2021 should be safe and achievable.

TC Energy's dividend appears to be highly secure, largely due to the stable cash flow that the company's long-term contracts provide it.

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## Risks

- As is the case with other midstream operators, TC Energy's cash flows may fluctuate and are directly exposed to the company's future operating performance, which is susceptible to movements in margins and throughput volumes. Realized margins and/or volumes could differ significantly from our estimates, thereby affecting TC Energy's cash dividends.
  - One of the key worries is TC Energy's high debt load. As of Sep 30, 2019, TC Energy had long-term debt of C\$36.4 billion, which represents a debt-to-capitalization ratio of 53.1%. The leverage restricts the financial flexibility of the firm and limits growth.
  - The cloud of uncertainty continues to hover over TC Energy's largest project - Keystone XL Pipeline. After facing delays for near about a decade, the \$8-billion pipeline – set to transport Canadian oil to refineries and distribution centers in the United States – finally received regulatory approval from Nebraska commissioners late last year, albeit on an alternative route to the one proposed by the company. However, the project was again hit by fresh controversy recently, as rerouting of the pipeline subjected it to a new legal investigation.
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## Last Earnings Report

### TC Energy Q3 Earnings Beat, Revenues Down Y/Y

TC Energy Corporation reported third-quarter 2019 earnings of 79 cents per share that surpassed the Zacks Consensus Estimate as well as the year-ago figure of 76 cents. This robust performance is primarily driven by a solid progress in the company's projects at Canadian Natural Gas Pipelines, U.S. Natural Gas Pipelines, Liquids Pipelines plus the Power and Storage segments. Contributions from growth projects worth \$8.2 billion that came online in 2019 so far also aided the earnings uptick.

Moreover, the company's comparable EBITDA of C\$2.3 billion in the quarter was up from the number in the same period last year.

Comparable distributable cash flow (DCF) of C\$1.6 billion (C\$1.78 per share) in the third quarter rose from C\$1.4 billion (C\$1.56) in the corresponding period of 2018.

However, TC Energy's revenues of C\$3.13 billion dipped 0.72% year over year.

Quarter Ending **09/2019**

Report Date	Nov 01, 2019
Sales Surprise	NA
EPS Surprise	3.95%
Quarterly EPS	0.79
Annual EPS (TTM)	3.12

### Segmental Information

Canadian Natural Gas Pipelines recorded comparable EBITDA of C\$572 million, reflecting a 9.6% rise from the year-ago quarter. This upside was attributable to impressive contribution from Canadian Natural Gas Pipelines resulting from the Canadian Mainline recovery of increased depreciation and higher incentive earnings in 2019.

U.S. Natural Gas Pipelines' comparable EBITDA amounted to C\$796 million, up 11.3% from the prior-year level. This upside can be attributed to better contributions from Columbia Gas and Columbia Gulf growth projects that commenced operations in the second quarter.

Mexico Natural Gas Pipelines' comparable EBITDA of C\$153 million was essentially in line with the year-earlier quarter. Contribution from a strong U.S. dollar was offset by changes in the timing of revenue recognition.

Liquids Pipelines unit generated comparable EBITDA of C\$575 million in the third quarter, improving from the year-ago level of C\$467 million. Rising volumes in the Keystone Pipeline System led to this uptrend. Moreover, earnings growth from liquids marketing activities was a key catalyst.

Power and Storage posted comparable EBITDA of C\$252 million, up 21.7% year over year on the back of earnings improvement from Bruce Power owing to a hike in realized sales price and higher output.

### Capital Expenditure and Balance Sheet

During the three months ended Sep 30, 2019, TC Energy's capital investments totaled C\$1.8 billion. On the same date, the company had cash and cash equivalents of C\$2.2 billion and long-term debt of C\$36.4 billion. Its debt-to-capitalization ratio was 53.1%.

### Key Updates

This leading North American energy infrastructure company is advancing secured growth projects worth C\$30-billion, which are likely to come online by 2023. Moreover, it already invested nearly C\$9 billion in the entire program, with approximately C\$2.5-billion funded projects of the same, expected to be completed by this year-end.

The company anticipates these growth projects to boost earnings and cash flow. This, in turn, will generate 8-10% annual dividend growth through 2021. TC Energy continues to advance the Keystone XL and Bruce Power life extension projects.

During the quarter, the company completed the partial monetization of its Northern Courier pipeline in Alberta along with the sale of certain Columbia Midstream assets in the Appalachian region. It further entered into an agreement to sell its natural gas fired power plants in Ontario

## Recent News

### TC Energy to Get \$600M From Stake Sale in Coastal GasLink

On **Dec 26** TC Energy Corporation announced a deal wherein it will divest its 65% stake in the Coastal GasLink Pipeline Project. Per the agreement, TC Energy will be offloading the interest to private equity company KKR & Co. Inc. and Canadian fund manager Alberta Investment Management Corporation on behalf of certain AIMCo clients.

Simultaneously with this sale, Coastal GasLink is envisioned to acquire financing from a syndicate of banks with the intention of funding up to 80% of the project during construction. The company's worth \$30-billion capital program will be partly backed by the divestiture of the Coastal GasLink pipeline. Moreover, the deal will help maximize its shareholder value.

Coastal GasLink is designed to be a 670-kilometer long pipeline, stretching from north eastern B.C. to LNG Canada's export terminal in Kitimat. The pipeline with an intended initial capacity of 2.1 billion cubic feet per day is projected to supply natural gas to the Royal Dutch Shell's (RDS.A) \$40-billion LNG Canada project.

Upon closure of this divestment, the company is looking forward to gain \$600 million comprising the gain on sale, required revaluation of residual ownership interest to fair market value and recognition of previously unrecorded tax benefits. The deal is expected to be completed in the first half of 2020 following which, TC Energy will own 35% stake in Coastal GasLink wherein it will reach an agreement for construction and operation of pipelines by limited partnerships. The deal is subject to customary closing conditions including regulatory approvals.

TC Energy is also committed by contract to coordinate with the 20 First Nations – groups of Canadian natives who reside along the length of the proposed pipeline – that collaborated with Coastal GasLink for providing the nations with an opportunity to invest in the project. Evidently, along with this sell-off, the company will offer the First Nations an option to buy a 10% equity interest in Coastal GasLink on similar terms.

## Valuation

TC Energy shares are up 35.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 6.7% and down 3.3%, respectively.

The S&P 500 index is up 24.9% in the past year.

The stock is currently trading at 12.91X trailing 12-month EV/EBITDA, which compares to 13.58X for the Zacks sub-industry, 5.06X for the Zacks sector and 12.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.19X and as low as 12.21X, with a 5-year median of 14.95X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$62 price target reflects 19.9X F12M earnings.

The table below shows summary valuation data for TRP

Valuation Multiples - TRP					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	12.91	13.58	5.06	12.12
	5-Year High	20.19	26.06	10.22	12.86
	5-Year Low	12.21	10.24	4.56	8.48
	5-Year Median	14.95	13.36	6.49	10.67
P/E F12M	Current	17.33	17.43	14.42	18.97
	5-Year High	25.63	34.66	32.45	19.34
	5-Year Low	12.18	16.13	11.28	15.17
	5-Year Median	17.78	22.64	18.69	17.44
P/S F12M	Current	4.85	2.04	0.89	3.53
	5-Year High	5.1	3.55	1.44	3.53
	5-Year Low	2.39	1.47	0.67	2.54
	5-Year Median	4.14	2.02	0.99	3

As of 01/16/2020

## Industry Analysis Zacks Industry Rank: Top 30% (77 out of 254)



## Top Peers

Antero Midstrm (AM)	Neutral
Enbridge Inc (ENB)	Neutral
EnLink Midstream, LLC (ENLC)	Neutral
Equitrans Midstream Corporation (ETRN)	Neutral
Kinder Morgan, Inc. (KMI)	Neutral
ONEOK, Inc. (OKE)	Neutral
Williams Companies, Inc. (The) (WMB)	Neutral
Targa Resources, Inc. (TRGP)	Underperform

Industry Comparison Industry: Alternative Energy - Other				Industry Peers		
	TRP Outperform	X Industry	S&P 500	KMI Neutral	OKE Neutral	WMB Neutral
<b>VGM Score</b>	<b>D</b>	-	-	<b>F</b>	<b>D</b>	<b>D</b>
Market Cap	50.22 B	472.81 M	24.61 B	48.40 B	31.72 B	29.14 B
# of Analysts	4	2.5	13	8	9	4
Dividend Yield	4.30%	0.00%	1.74%	4.68%	4.77%	6.32%
<b>Value Score</b>	<b>C</b>	-	-	<b>D</b>	<b>C</b>	<b>D</b>
Cash/Price	0.03	0.09	0.04	0.01	0.02	0.01
EV/EBITDA	12.98	2.90	14.24	11.77	18.02	15.40
PEG Ratio	3.44	2.46	2.07	4.33	1.90	4.75
Price/Book (P/B)	2.35	1.75	3.38	1.40	5.10	1.73
Price/Cash Flow (P/CF)	10.86	10.04	13.75	10.46	19.99	11.39
P/E (F1)	17.23	17.23	19.09	21.67	20.29	23.77
Price/Sales (P/S)	4.80	1.45	2.68	3.55	2.98	3.51
Earnings Yield	5.80%	4.65%	5.24%	4.63%	4.92%	4.20%
Debt/Equity	1.60	0.57	0.72	0.93	2.01	1.23
Cash Flow (\$/share)	4.95	1.05	6.94	2.04	3.84	2.11
<b>Growth Score</b>	<b>D</b>	-	-	<b>D</b>	<b>C</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	10.77%	10.77%	10.56%	-1.89%	16.83%	8.63%
Proj. EPS Growth (F1/F0)	1.13%	30.94%	7.57%	2.87%	23.56%	10.54%
Curr. Cash Flow Growth	26.37%	20.63%	14.73%	18.89%	68.93%	9.42%
Hist. Cash Flow Growth (3-5 yrs)	10.01%	12.67%	9.00%	8.20%	15.84%	13.21%
Current Ratio	0.75	1.28	1.24	0.35	1.26	0.43
Debt/Capital	58.38%	37.31%	42.99%	48.84%	66.79%	55.14%
Net Margin	29.37%	0.37%	11.14%	15.21%	11.76%	1.87%
Return on Equity	14.12%	-3.45%	17.16%	6.25%	19.56%	6.95%
Sales/Assets	0.14	0.34	0.55	0.18	0.54	0.18
Proj. Sales Growth (F1/F0)	4.39%	4.55%	4.16%	-0.44%	8.07%	4.30%
<b>Momentum Score</b>	<b>D</b>	-	-	<b>F</b>	<b>D</b>	<b>F</b>
Daily Price Chg	0.69%	0.49%	0.89%	-0.19%	1.15%	0.97%
1 Week Price Chg	-0.96%	0.00%	0.39%	1.46%	-1.37%	-0.38%
4 Week Price Chg	2.28%	0.00%	2.65%	2.54%	3.78%	2.30%
12 Week Price Chg	4.61%	4.36%	7.55%	4.55%	7.70%	3.53%
52 Week Price Chg	29.82%	-23.81%	22.12%	20.60%	24.04%	-8.10%
20 Day Average Volume	1,523,169	43,690	1,536,375	10,217,930	1,602,871	7,936,961
(F1) EPS Est 1 week change	0.73%	0.00%	0.00%	-0.63%	-0.12%	-0.28%
(F1) EPS Est 4 week change	0.75%	0.03%	0.00%	-1.05%	0.89%	-2.07%
(F1) EPS Est 12 week change	1.05%	-1.06%	-0.40%	-2.07%	0.26%	-3.01%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-2.40%	-1.39%	-2.22%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	D
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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