

TC Energy Corporation (TRP)

\$41.31 (As of 03/25/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/25/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: B

Momentum: D

Summary

TC Energy is a predominantly natural gas pipeline operator with operations spanning Canada, the United States and Mexico. A quality stock with industry leading wide moat assets, TC Energy has a secured portfolio of C\$30 billion in growth projects. This should support the company's stated dividend growth commitment of 8-10% annually out to 2021. Underpinned by long-term contracts, TC Energy's low-risk, recession-proof business model offers investors rock-solid revenue and cash flow stability. However, continued timing and cost overrun issues over large construction projects, especially the Keystone XL, are major overhangs. Moreover, further share price appreciation will likely be tied to the progress on the debt reduction front, which sits at a massive C\$34.2 billion. Hence, investors are advised to wait for a better entry point.

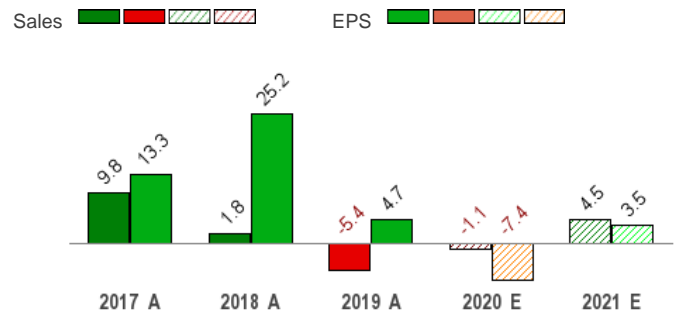
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.92 - \$32.37
20 Day Average Volume (sh)	3,976,199
Market Cap	\$38.8 B
YTD Price Change	-22.5%
Beta	0.75
Dividend / Div Yld	\$2.42 / 5.6%
Industry	Alternative Energy - Other
Zacks Industry Rank	Top 31% (79 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	-7.4%
Expected Report Date	05/01/2020
Earnings ESP	-13.9%
P/E TTM	13.2
P/E F1	14.3
PEG F1	2.9
P/S TTM	3.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					10,323 E
2020					9,880 E
2019	2,623 A	2,521 A	2,373 A	2,472 A	9,989 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.63 E	\$0.38 E	\$0.59 E	\$0.41 E	\$2.99 E
2020	\$0.77 E	\$0.75 E	\$0.77 E	\$0.84 E	\$2.89 E
2019	\$0.80 A	\$0.75 A	\$0.79 A	\$0.78 A	\$3.12 A

*Quarterly figures may not add up to annual.

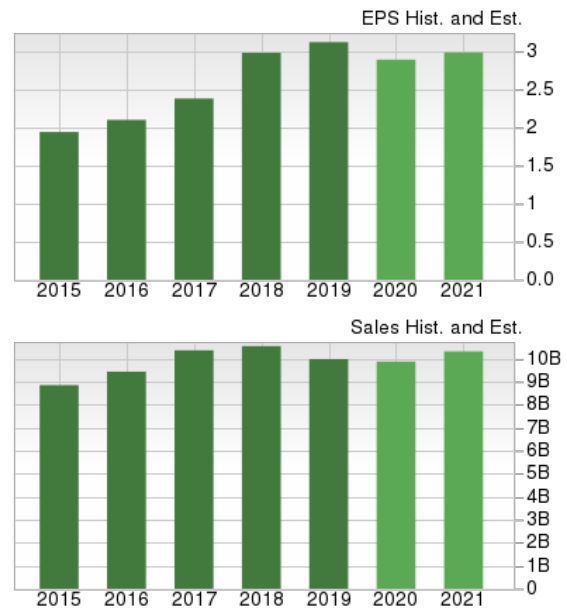
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/25/2020. The reports text is as of 03/26/2020.

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 17% of the company's 2019 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 41.7% of the company's 2019 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 7.44% of the company's 2019 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 28% of the company's 2019 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 7% of the company's 2019 earnings.



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.
- ▲ TC Energy has a long and consistent dividend paying record. The energy infrastructure operator, which announced a 8% hike in its quarterly payout for the first-quarter 2020, has increased dividends in each of the last 19 years. Considering the company's low-risk operational profile and predictable cash flows, it's 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.

Reasons To Sell:

- ▼ 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.
- ▼ One of the key worries is TC Energy's high debt load. As of Dec 31, 2019, TC Energy had long-term debt of C\$34.2 billion, which represents a debt-to-capitalization ratio of 51.41%. The leverage restricts the financial flexibility of the firm and limits growth.
- ▼ 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 massive capital expenditure spending has raised financing concerns among investors and is likely to be an overhang on the company's stock over the next few years.
- ▼ Apart from the flagship Keystone XL, TransCanada stock is subject to high degree of uncertainty related to some of the company's other troubled projects. The \$1.2 billion El Encino-Topolobampo pipeline in Mexico, which was recently placed into service, faced substantial delays and cost overrun to the tune of \$200 million. Further, regulatory hurdles forced TransCanada to hike its budget for the Mountaineer XPress and WB XPress projects by another \$500 million. The escalating costs, which the company is unlikely to recoup, is expected to take a toll on TransCanada's balance sheet.

TC Energy's high debt-burden of more than C\$35 billion is concerning.

Last Earnings Report

TC Energy Q4 Earnings Beat Estimates, Revenues Down Y/Y

TC Energy Corporation's fourth-quarter 2019 earnings of 78 cents per share came in line with the Zacks Consensus Estimate as well as the year-ago figure. This performance is primarily attributable to a solid progress in the company's projects at U.S. Natural Gas Pipelines, Mexico Natural Gas Pipelines plus the Power and Storage segments. Contributions from growth projects worth C\$8.7 billion that came online in 2019 also aided the earnings.

However, the company's comparable EBITDA of C\$2.3 billion in the quarter was down from C\$2.5 billion reported in the same period last year owing to lower contribution from the Canadian Natural Gas Pipelines segment.

TC Energy's revenues of C\$3.26 billion dropped 16.42% year over year.

Segmental Information

Canadian Natural Gas Pipelines recorded comparable EBITDA of C\$618 million, reflecting a 24.4% fall from the year-ago quarter. This downside was attributable to a weak contribution from Canadian Natural Gas Pipelines due to the Canadian Mainline's decreased net income and lower incentive earnings in 2019.

U.S. Natural Gas Pipelines' comparable EBITDA amounted to C\$855 million, up 5.3% from the prior-year level. This upside can be attributed to better contributions from Columbia Gas and Columbia Gulf growth projects.

Mexico Natural Gas Pipelines' comparable EBITDA of C\$165 million improved from the year-earlier quarter of C\$152 million. 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\$472 million in the fourth quarter, declining from the year-ago level of C\$538 million. Tumbling volumes in the Keystone Pipeline System caused this downtrend. Moreover, earnings drop from liquids marketing activities due to lower margins was a prime reason.

Power and Storage posted comparable EBITDA of C\$210 million, up 25.7% 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

As of Dec 31, 2019, TC Energy's capital investments totaled C\$2.06 billion. On the same date, the company had cash and cash equivalents worth C\$1.3 billion and long-term debt of C\$34.2 billion. Its debt-to-capitalization ratio was 51.41%.

Key Updates

This leading North American energy infrastructure player is advancing two new expansion projects worth C\$1.3 billion, which are likely to be active by 2023. Of the total, the company invested C\$0.9 billion in 2023 NGTL Intra-Basin System Expansion program, which is set to carry natural gas from the Western Canadian Sedimentary Basin to end markets on the NOVA gas network that are located in Alberta. The remaining C\$300-million Alberta XPress project will be utilized for extending the ANR Pipeline (ANR) to help Canadian oil reach the U.S. Gulf Coast.

TC Energy's board of directors announced an 8% dividend hike in its first-quarter 2020 to 81 Canadian cents per share (or C\$3.24 cents annually). This marks the company's 20th consecutive dividend payout raise. The move is indicative of its commitment to create value for its shareholders and also underlines its confidence in business growth. The dividend will be paid out on Apr 30 to its shareholders of record as of Mar 31, 2020.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	NA
EPS Surprise	0.00%
Quarterly EPS	0.78
Annual EPS (TTM)	3.12

Recent News

TC Energy to Buy Pioneer Pipeline

On **Mar 12**, TC Energy signed a deal to buy the Pioneer Pipeline from TransAlta Corp. and its partner Tidewater Midstream and Infrastructure Ltd. for C\$255 million. The 131 km pipeline, which runs from west of Drayton Valley to west of Edmonton, includes 131 kilometres of operating pipeline in Alberta. TC Energy plans to integrate the pipeline into its Nova Gas Transmission Ltd. (NGTL) system.

Valuation

TC Energy shares are down 22.5% in the year-to-date period and 8.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 36.3% and 50% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 36.5% and 54.7%, respectively.

The S&P 500 index is down 23.8% in the year-to-date period and 13.4% in the past year.

The stock is currently trading at 11.64X trailing 12-month EV/EBITDA, which compares to 2.94X for the Zacks sub-industry, 3.43X for the Zacks sector and 9.07X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.2X and as low as 10.51X, with a 5-year median of 14.95X. Our Neutral recommendation indicates that the stock will in-line with the market. Our \$44 price target reflects 14.07X 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	11.64	2.94	3.43	9.07
	5-Year High	20.2	6.07	10.37	12.88
	5-Year Low	10.51	1.85	3.09	8.27
	5-Year Median	14.95	4.02	6.51	10.78
P/E F12M	Current	13.21	13.43	14.77	14.72
	5-Year High	25.63	22.79	32.41	19.34
	5-Year Low	10.99	11.37	11.28	14.72
	5-Year Median	17.52	16.08	18.41	17.42
P/S F12M	Current	3.59	5.74	0.54	2.65
	5-Year High	5.1	30.75	1.45	3.43
	5-Year Low	2.39	0.71	0.54	2.54
	5-Year Median	4.18	5.23	0.99	3

As of 03/25/2020

Industry Analysis Zacks Industry Rank: Top 31% (79 out of 253)



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
Targa Resources, Inc. (TRGP)	Neutral
Williams Companies, Inc. (The) (WMB)	Neutral

Industry Comparison Industry: Alternative Energy - Other				Industry Peers		
	TRP Neutral	X Industry	S&P 500	KMI Neutral	OKE Neutral	WMB Neutral
VGM Score	C	-	-	D	B	B
Market Cap	38.77 B	349.73 M	17.53 B	31.10 B	9.55 B	16.24 B
# of Analysts	4	3	13	8	9	7
Dividend Yield	5.59%	0.00%	2.47%	7.28%	16.18%	11.95%
Value Score	D	-	-	C	A	C
Cash/Price	0.03	0.20	0.07	0.04	0.00	0.02
EV/EBITDA	9.71	3.85	10.68	8.29	8.41	8.99
PEG Ratio	2.85	2.38	1.64	3.45	0.62	2.67
Price/Book (P/B)	1.81	1.17	2.32	0.91	1.53	0.99
Price/Cash Flow (P/CF)	8.08	7.16	9.40	6.68	5.44	5.46
P/E (F1)	14.29	17.83	14.14	13.78	6.36	13.33
Price/Sales (P/S)	3.88	0.91	1.82	2.35	0.94	1.98
Earnings Yield	7.00%	5.13%	7.02%	7.28%	15.71%	7.47%
Debt/Equity	1.51	0.60	0.70	0.94	2.01	1.23
Cash Flow (\$/share)	5.11	1.52	7.01	2.06	4.25	2.45
Growth Score	B	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	11.82%	13.63%	10.85%	1.21%	18.81%	12.69%
Proj. EPS Growth (F1/F0)	-7.37%	8.16%	3.53%	4.87%	18.35%	1.44%
Curr. Cash Flow Growth	3.72%	2.60%	5.93%	3.20%	11.06%	16.28%
Hist. Cash Flow Growth (3-5 yrs)	11.18%	10.89%	8.55%	6.59%	22.18%	10.41%
Current Ratio	0.59	1.13	1.23	0.63	0.73	0.40
Debt/Capital	56.97%	37.32%	42.57%	48.98%	66.76%	55.18%
Net Margin	30.61%	-1.07%	11.64%	16.58%	12.58%	10.53%
Return on Equity	13.97%	-0.52%	16.74%	6.29%	20.27%	7.29%
Sales/Assets	0.13	0.43	0.54	0.17	0.50	0.18
Proj. Sales Growth (F1/F0)	-1.10%	0.00%	2.51%	0.04%	4.67%	3.06%
Momentum Score	D	-	-	C	F	C
Daily Price Chg	7.83%	0.00%	2.41%	6.60%	4.81%	3.64%
1 Week Price Chg	-13.62%	-10.37%	-16.96%	-16.44%	-32.71%	-27.07%
4 Week Price Chg	-25.99%	-21.43%	-23.98%	-33.09%	-68.47%	-30.33%
12 Week Price Chg	-22.51%	-22.51%	-27.80%	-35.14%	-69.46%	-43.55%
52 Week Price Chg	-8.77%	-45.24%	-18.55%	-31.28%	-66.43%	-53.00%
20 Day Average Volume	3,976,199	37,861	4,285,848	29,608,746	10,004,841	25,090,900
(F1) EPS Est 1 week change	-6.85%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-7.37%	0.00%	-1.83%	3.64%	-3.80%	-1.13%
(F1) EPS Est 12 week change	-6.70%	-5.34%	-2.90%	-0.66%	-3.45%	-3.17%
(Q1) EPS Est Mthly Chg	-6.12%	-3.06%	-1.37%	6.70%	-4.98%	4.24%

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	D
Growth Score	B
Momentum Score	D
VGM Score	C

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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