

TC Energy Corporation (TRP)

\$45.02 (As of 07/28/20)

Price Target (6-12 Months): **\$48.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/25/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: A

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\$43 billion in growth projects. This should support the company's stated dividend growth commitment of 5-7% 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\$40 billion. Hence, investors are advised to wait for a better entry point.

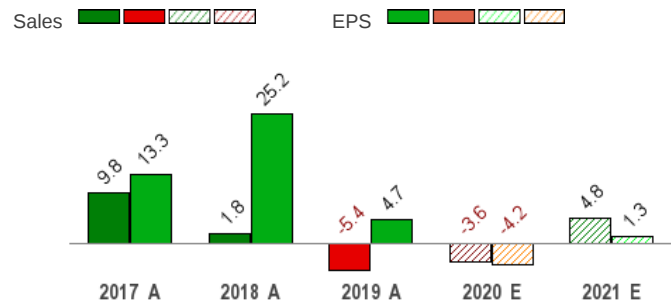
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$57.92 - \$32.37
20 Day Average Volume (sh)	1,040,097
Market Cap	\$42.3 B
YTD Price Change	-15.6%
Beta	0.72
Dividend / Div Yld	\$2.30 / 5.1%
Industry	Alternative Energy - Other
Zacks Industry Rank	Top 47% (118 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.9%
Last Sales Surprise	NA
EPS F1 Est- 4 week change	1.2%
Expected Report Date	07/30/2020
Earnings ESP	-0.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					10,093 E
2020	2,549 A	2,337 E	2,299 E	2,481 E	9,632 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	\$0.76 E	\$0.69 E	\$0.72 E	\$0.75 E	\$3.03 E
2020	\$0.88 A	\$0.67 E	\$0.68 E	\$0.76 E	\$2.99 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.

P/E TTM	14.1
P/E F1	15.1
PEG F1	3.0
P/S TTM	4.3

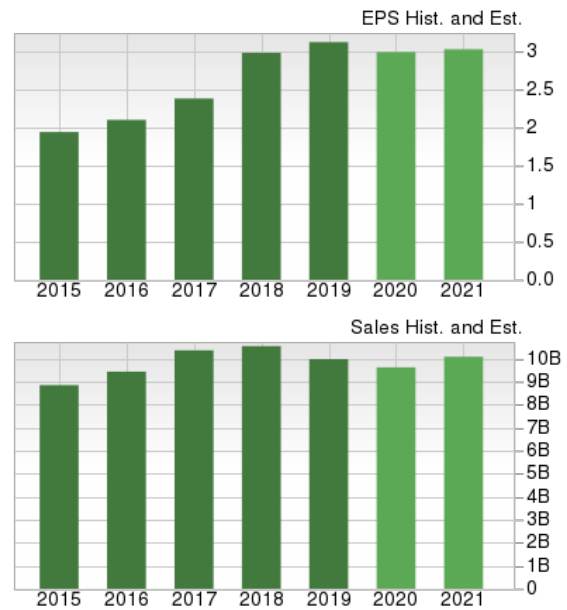
The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/28/2020. The reports text is as of 07/29/2020.

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\$43 billion of secured growth projects.
- ▲ 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 5-7% 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 – received a much needed capital infusion from the Alberta government. However, the project was again hit by fresh controversy recently, as a Montana federal judge recently upheld a ruling that revoked the pipeline's environment permit.
- ▼ While the company's times interest earned ratio of 3.1 compares favorably with the industry's ratio of 1.6, TC Energy's debt levels appear too high. As of Mar 31, 2020, TC Energy had total debt of more than C\$40 billion. Moreover, the company's debt-to-capitalization of 58.3% is quite high versus 51.3% for the sub industry to which it belongs.
- ▼ This leading North American energy infrastructure company is advancing secured growth projects worth C\$43-billion. 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\$40 billion is concerning.

Last Earnings Report

TC Energy Q1 Earnings Beat Estimate, Revenues Down Y/Y

TC Energy Corporation's first-quarter 2020 earnings of 88 cents per share came ahead of the Zacks Consensus Estimate of 74 cents as well as the year-ago figure of 80 cents. This outperformance is primarily attributable to a solid progress in the company's projects at the U.S. Natural Gas Pipelines, Canadian Natural Gas Pipelines and Mexico Natural Gas Pipelines apart from the Power and Storage segments. Contributions from projects worth C\$8.7 billion that came online in 2019 also aided the bottom line.

Moreover, TC Energy's comparable EBITDA of C\$2.5 billion in the quarter was up 6.4% from C\$2.38 billion reported in the same period last year. Further, management maintained that with 95% of the company's comparable EBITDA coming from long-term, fixed-rate contracts, it is mostly insulated from the short-term price and throughput fluctuations of the underlying commodities.

The energy infrastructure provider's revenues of C\$3.42 billion dipped 2% year over year due to lower contribution from the Liquids Pipelines segment.

Segmental Information

Canadian Natural Gas Pipelines recorded comparable EBITDA of C\$597 million, reflecting a 7.4% rise from the year-ago quarter. This upside was attributable to a strong contribution from Canadian Natural Gas Pipelines owing to the improved rate base earnings, flow-through depreciation and financial charges on the NGTL System from added services.

U.S. Natural Gas Pipelines' comparable EBITDA amounted to C\$1.03 billion, up 6.2% 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\$269 million improved from the year-earlier quarter of C\$146 million. This upturn was primarily on the back of solid earnings from investment in the Sur de Texas pipeline.

Liquids Pipelines unit generated comparable EBITDA of C\$445 million in the first quarter, declining from the year-ago level of C\$563 million. Tumbling volumes in the Keystone Pipeline System caused this downtrend. Moreover, weak earnings from liquids marketing activities was a prime reason.

Power and Storage posted comparable EBITDA of C\$194 million, up 28.5% 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 Mar 31, 2020, TC Energy's capital investments totaled C\$1.99billion. On the same date, the company had cash and cash equivalents worth C\$1.89 billion and long-term debt of C\$34.8 billion. Its total debt to total capital was 50.6%.

Key Updates

On Mar 31, management at this leading North American energy infrastructure player stated that it will forge ahead with construction of Keystone XL, indicating an additional investment of approximately \$8 billion. The construction work was initiated last month and the pipeline is projected to come online in 2023. As a result of higher spending on Keystone XL, this year's total capital expenditure is anticipated to be \$10 billion compared with the prior year's \$7.5 billion.

TC Energy's board of directors announced the second-quarter 2020 dividend of 81 Canadian cents per share (or C\$3.24 cents annually).

Quarter Ending 03/2020

Report Date	May 01, 2020
Sales Surprise	NA
EPS Surprise	18.92%
Quarterly EPS	0.88
Annual EPS (TTM)	3.20

Valuation

TC Energy shares are down 15.5% in the year-to-date period and 8.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Oil-Energy sector are down 27.9% and 36.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 25.3% and 37.7%, respectively.

The S&P 500 index remains where it was at the start of 2020 but is up 7.3% in the past year.

The stock is currently trading at 11.47X trailing 12-month EV/EBITDA, which compares to 9.51X for the Zacks sub-industry, 4.01X for the Zacks sector and 12.04X for the S&P 500 index.

Over the past five years, the stock has traded as high as 20.2X and as low as 10.5X, with a 5-year median of 14.57X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$48 price target reflects 16X 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	11.47	9.51	4.01	12.04
	5-Year High	20.2	21.03	10.42	12.85
	5-Year Low	10.5	8.52	3.04	8.25
	5-Year Median	14.57	13.75	6.48	10.88
P/E F12M	Current	14.95	12.69	30.64	22.46
	5-Year High	25.63	30.35	61.27	22.46
	5-Year Low	10.72	11.83	11.32	15.25
	5-Year Median	16.94	19.79	18.57	17.52
P/S F12M	Current	4.28	1.67	0.71	3.54
	5-Year High	5.1	2.96	1.46	3.54
	5-Year Low	2.39	1.38	0.59	2.53
	5-Year Median	4.23	1.95	0.99	3.02

As of 07/28/2020

Industry Analysis Zacks Industry Rank: Top 47% (118 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Ameresco, Inc. (AMRC)	Outperform	2
Enbridge Inc (ENB)	Neutral	3
Evergy Inc. (EVRG)	Neutral	2
NextEra Energy Partners, LP (NEP)	Neutral	3
Vestas Wind Systems AS (VWDRY)	Neutral	3
Williams Companies, Inc. The (WMB)	Neutral	3
Covanta Holding Corporation (CVA)	Underperform	5
Clearway Energy, Inc. (CWEN)	Underperform	4

Industry Comparison Industry: Alternative Energy - Other				Industry Peers		
	TRP	X Industry	S&P 500	ENB	EVRG	VWDRY
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	2	3
VGM Score	B	-	-	B	B	F
Market Cap	42.32 B	250.84 M	22.47 B	63.96 B	14.68 B	25.73 B
# of Analysts	8	2.5	14	7	2	1
Dividend Yield	5.11%	0.00%	1.84%	7.29%	3.12%	0.55%
Value Score	B	-	-	B	B	C
Cash/Price	0.03	0.10	0.07	0.01	0.02	0.09
EV/EBITDA	10.20	8.74	13.04	11.38	11.10	20.56
PEG Ratio	3.01	3.45	2.97	1.69	4.18	NA
Price/Book (P/B)	1.89	1.81	3.11	1.33	1.73	7.07
Price/Cash Flow (P/CF)	8.81	9.40	12.07	9.31	8.93	34.13
P/E (F1)	15.06	21.09	21.52	16.27	21.09	41.88
Price/Sales (P/S)	4.27	1.73	2.35	1.73	2.91	1.73
Earnings Yield	6.64%	2.63%	4.34%	6.14%	4.74%	2.39%
Debt/Equity	1.47	0.67	0.76	0.98	1.06	0.20
Cash Flow (\$/share)	5.11	0.21	7.01	3.39	7.25	1.28
Growth Score	C	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	12.70%	23.32%	10.85%	5.95%	4.89%	-13.39%
Proj. EPS Growth (F1/F0)	-4.17%	-5.71%	-7.56%	-2.93%	6.23%	-21.80%
Curr. Cash Flow Growth	3.72%	-0.45%	5.47%	13.94%	16.35%	-2.38%
Hist. Cash Flow Growth (3-5 yrs)	11.18%	10.66%	8.55%	18.69%	20.87%	14.07%
Current Ratio	0.51	1.13	1.31	0.58	0.72	1.13
Debt/Capital	56.47%	40.08%	44.41%	46.79%	51.40%	16.35%
Net Margin	31.85%	-3.08%	10.44%	4.88%	12.68%	4.17%
Return on Equity	14.20%	-1.47%	15.10%	8.84%	7.85%	17.03%
Sales/Assets	0.13	0.29	0.54	0.30	0.19	0.94
Proj. Sales Growth (F1/F0)	-3.58%	0.00%	-1.97%	-11.82%	0.00%	13.44%
Momentum Score	A	-	-	A	C	F
Daily Price Chg	0.36%	-0.86%	-0.80%	0.86%	1.19%	-1.74%
1 Week Price Chg	0.09%	0.00%	0.37%	2.02%	1.33%	7.32%
4 Week Price Chg	5.04%	0.73%	3.64%	3.81%	9.19%	27.67%
12 Week Price Chg	-4.80%	9.94%	11.56%	3.17%	13.00%	51.53%
52 Week Price Chg	-8.38%	-8.38%	-3.92%	-5.25%	6.45%	58.42%
20 Day Average Volume	1,040,097	130,764	1,867,919	2,499,566	1,647,192	65,922
(F1) EPS Est 1 week change	0.93%	0.00%	0.00%	0.07%	0.00%	0.00%
(F1) EPS Est 4 week change	1.15%	0.00%	0.21%	1.91%	0.00%	-3.70%
(F1) EPS Est 12 week change	4.55%	0.00%	-1.29%	13.72%	0.00%	-12.61%
(Q1) EPS Est Mthly Chg	-0.49%	0.00%	0.09%	4.79%	NA	NA

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.

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	B
Growth Score	C
Momentum Score	A
VGM Score	B

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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