

TransCanada Corp (TRP) (NASDAQ) – Long

Eric Weltz, erw5pv@virginia.edu, 1-25-16

INVESTMENT SUMMARY

This memo recommends TransCanada Corporation as a long due to increasing opportunities in energy transfer on US soil. With Donald Trump's promotion of the KeyStone XL pipeline, TransCanada can become a major force by creating thousands of well paying jobs, and increasing the US GDP by billions. TransCanada is not solely dependent on this new development, however, and many other large investments into other projects make TransCanada a very solid investment choice.

COMPANY DESCRIPTION

TransCanada Corp (TransCanada) is an energy infrastructure company. The Company deals in three key areas, Natural Gas Pipelines, Liquids Pipelines, and Energy. Founded in 1951 in Calgary Canada, the company primarily transports natural gas, but also moves crude oil through the Keystone Pipeline system into the United States. The company also is involved with energy generation by natural gas, nuclear, coal, hydro, wind, and solar power.

BUSINESS MODEL

TransCanada primarily operates in three distinct sectors as mentioned previously, Natural Gas Pipelines, Liquids Pipelines, and Energy.

- **Natural Gas Pipelines(47.6 % of revenue):**

- The Natural Gas Pipelines segment consists of the Company's investments in approximately 67,300 kilometers (km) (approximately 41,900 miles) of regulated natural gas pipelines and over 250 billion cubic feet (Bcf) of regulated natural gas storage facilities.
- Pipelines are located in Canada, the United States and Mexico. They control 80 percent of Canadian demand and 15 percent of US demand, and have recently increased their share in Mexico and Canada.
- Expectations of higher earnings from US pipelines due to higher revenues and lower costs, in addition to the recent acquisition of the Columbia Pipeline Group, which has increased contributions by 174 million dollars.

- **The Liquids Pipelines segment: (16.6%)**

- Consists of approximately 4,250 km (approximately 2,640 miles) of crude oil pipeline systems, which connect Alberta and the United States crude oil supplies to the United States refining markets in Illinois, Oklahoma and Texas.
- The largest of these projects could be the Keystone XL project, which was recently approved by the Trump Administration by executive order, which would be over 1,000 miles long, and generate plenty of new income.
- If Keystone XL is approved it could increase efficiency in the transportation of oil, but there are other long term projects that can lead to significant future revenue as well such as East energy

- **The Energy segment(37.8%)**

- Consists of the Company's investments in over 20 electrical power generation plants and approximately two non-regulated natural gas storage facilities.
- Able to generate 13,000 megawatts of energy production and 350 billion cubic feet of gas, TransCanada is a significant player in the field.

THESIS & KEY POINTS

1. TransCanada has recently submitted a new application for the Keystone XL project, which if approved would transport one fifth of the oil exported from the United States to Canada.
 - a. Although TransCanada already exports more than 550,000 barrels of oil per day to the existing Keystone Pipeline, the new Keystone XL project could carry an additional 830,000, and create 42,000 new jobs. A lot of the vast oil reserves in Canada would have a new avenue for transport. Therefore TransCanada would command a larger share of the US market, which is generally stronger than that in Canada, while producers could earn up to two more dollars per barrel.
2. TransCanada is poised for growth even without the looming Keystone XL project, especially with the recent addition of Columbia. TransCanada is widely expanding their presence in a number of different locations, which should lead to significant future growth.
 - a. TransCanada has twenty-six billion dollars invested in soon to be completed projects, which include a number of oil pipelines, natural gas pipelines, and energy power. In total this could easily lead to an increase in the projected dividend, from a recent 7 % to a target of 8-10% per year until 2020.
 - b. There has been clearly visible growth in TransCanada even before the revival of the Keystone XL project. Currently the company has 45 billion dollars of secured long term projects on the docket, with only 8 billion allocated to Keystone XL. The Energy East project is \$ 15.7 billion, or nearly twice Keystone XL.
3. TransCanada is finally beginning a restructuring process which will lead to higher payments and lower debts, which bodes well as a smart investment now
 - a. The new plans should help with previous issues of stretched leverage and unstable capital structure. This will allow the company to increase available shares and increase dividend payments annually by over one hundred million. A lot of the debt which was hurting their financial leverage to a ratio of over 7x was a result of the Columbia acquisition, but plans to increase equity and sell of some energy assets should reduce that ratio and make TransCanada a safer investment.

MISPERCEPTIONS

1. The revival of Keystone XL will significantly hinder the development of Energy East
 - a. Although there is some overlap, TransCanada has announced it will continue as planned with Energy East, according to President Tim McMillan. He claims that India will require the project, and as it is projected to be the largest importer of oil in the next five years, that could lead to significant revenue
2. TransCanada is dependent on the Keystone XL project to increase in value
 - a. As mentioned earlier, the eight billion dollars allotted to Keystone XL is just a fraction of the 45 billion they plan to invest in the long term.
 - b. In addition they have a number of short and medium term investments that should pay off in the near future. With the recent acquisition of Columbia they now have 25 billion in these such assets, which should pay off very shortly.
3. TransCanada is heavily reliant on a strong Crude oil market to see an increase in shareholder value.
 - a. Although there is definitely correlation between the two heavily related markets, TransCanada can thrive even if oil is struggling. Oil is currently near as low as it has been in the past five years, and has remained relatively steady over the past year, however TransCanada has risen over 15 dollars per share since a low in the middle of 2016 of \$ 33.20, to a current \$48.51. (46 percent)

SIGNPOSTS

- Continue watching the state of oil prices which could affect oil transportation companies
- Follow up on growth in the three core areas of Canada, the United States, and Mexico
- Watch the new administration's policies on energy and energy transportation, specifically with the Keystone XL project

RISKS

- Risk that Keystone XL project is either delayed or denied
- Chance for potential environmental concerns
- Potential overlap between Keystone XL and East Energy could make both impractical or delay plans

Eric Weltz

232 Balz-Dobie Charlottesville, VA 22904

443-545-6759

erw5pv@virginia.edu

Education

University of Virginia Class of 2020

Echols Scholar

2320 SAT score

River Hill High School Class 2016

Ranked 3 out of 315

GPA 4.00 unweighted 4.86 weighted

United States Marine Corps Scholastic Excellence Award

National AP scholar

Experience

Upslide Down Sliders Food Truck

2015-present

- Interact with customers and record orders on special tickets
- Utilize computerized cashiering system for financial transactions

River Hill Honor Council

2013-2016

- Head Chair who oversaw academic integrity hearings
- Maintained detailed records of each individual case
- Assisted Co-Chairs in developing educational tools and teaching new members

Future Business Leaders of America

2013-2016

- Placed 1st in regional and 3rd in state competition in agribusiness; qualified for nationals
- Executive Committee

Internship at Potomac Valley Orthopedics

2015

- Shadowed an orthopedic surgeon for pre-surgical and post-surgical visits
- Acquired great knowledge on various orthopedic issues and their treatments

Interests

Operation Education

2015-2016

- Tutored middle school students at Folly Quarter Middle School who have fallen behind in their coursework

Baltimore Bays Travel Soccer

2013-2016

- Ranked as high as 1st in the state, 16th in the country on Top Drawer Soccer
- Qualified for National League

River Hill Soccer

2012-2015

- 2014 County, Regional, and State Champions
- Ranked 16th nationally by National Soccer Coaches Association of America
- Ranked 10th nationally by Top Drawer Soccer