



TC Energy Corporation (TRP)

Updated February 22nd, 2021 by Aristofanis Papadatos

Key Metrics

Current Price:	\$45	5 Year CAGR Estimate:	12.0%	Market Cap:	\$40.8 B
Fair Value Price:	\$53	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	3/30/2021
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.2%	Dividend Payment Date:	4/30/2021
Dividend Yield:	6.1%	5 Year Price Target	\$64	Years Of Dividend Growth:	6
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	7.4%

Overview & Current Events

On May 3rd, 2019, TransCanada Corporation changed its name to TC Energy Corporation. TC Energy Corporation operates Canada's largest natural gas pipeline system. The company owns more than 57,000 miles of natural gas pipelines and more than 3,000 miles of liquids pipelines. TC Energy Corporation operates through three segments: Natural Gas Pipelines, Oil Pipelines, and Energy. The Natural Gas Pipelines segment generated 75% of the total earnings in 2020. TC Energy Corporation is headquartered in Calgary, Alberta, Canada, and its common shares are cross listed on both the Toronto Stock Exchange and the New York Stock Exchange, where they trade with a market capitalization of US\$40.8 billion. In this report, all figures are reported in U.S. dollars.

On December 15th, 2020, TC Energy announced that it plans to acquire the remaining 76% stake it does not own in TC Pipelines (TCP) in an all-stock deal. The shareholders of the latter will receive 0.70 shares of TC Energy for each share of TCP they own. The deal is expected to close in the first quarter of 2021, after the approval of shareholders.

In mid-February, TC Energy reported (2/18/21) financial results for the fourth quarter of fiscal 2020. The energy market is going through a downturn due to the pandemic, but the natural gas market has proved more resilient than the oil market. In addition, TC Energy is largely insulated from the downturn thanks to its regulated assets and its long-term contracts, which generate 95% of its EBITDA. As a result, its flows and utilization rates remained in line with historical levels in 2020 and its adjusted earnings-per-share rose 4% over the prior year's record level thanks to the strong performance of legacy assets and contributions from \$4.5 billion of growth projects that came online in 2020.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.12	\$1.84	\$2.28	\$2.12	-\$1.26	\$0.12	\$2.38	\$2.97	\$3.18	\$3.31	\$3.30	\$4.01
DPS	\$1.65	\$1.76	\$1.73	\$1.66	\$1.50	\$1.68	\$1.99	\$2.12	\$2.31	\$2.41	\$2.74	\$3.18
Shares¹	704.0	705.0	707.0	709.0	702.6	863.8	881.4	918.0	938.0	940.0	940.0	1,100.0

TC Energy's growth strategy has been to raise capital (in the form of either debt or equity) to fund growth projects. Over the last decade, until 2017, this strategy failed to generate meaningful growth for the company *on a per-share basis*, as the additional net income generated by these projects was offset by the increased share count.

However, we believe that the next several years will show an improvement for TC Energy thanks to a strong pipeline of growth projects. TC Energy has more than \$15 billion of growth projects underway. These projects are supported by regulated or long-term contracted business models. Management expects earnings and cash flows to continue to grow in the upcoming years. We expect 4% annualized growth over the next five years, slightly lower than the 5.1% average annual growth rate over the last decade due to the high comparison base this year. Management has already raised the dividend by 7.4% this year and it has guided for 5%-7% dividend growth per year thereafter, though the high leverage is a concern. We have assumed 3% annual dividend growth going forward in order to be on the safe side.

¹ In millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	19.4	23.9	20.2	22.5	---	---	24.2	14.3	15.1	13.9	13.6	16.0
Avg. Yld.	4.0%	4.0%	3.8%	3.5%	3.8%	4.0%	4.1%	5.0%	4.8%	5.2%	6.1%	4.9%

Excluding 2015 and 2016, when the company's earnings were depressed, TC Energy has traded at an average price-to-earnings ratio of 19.2 over the last decade. The stock is currently trading at a price-to-earnings ratio of 13.6, which is lower than our assumed fair price-to-earnings ratio of 16.0. If the stock reverts to our fair value estimate over the next five years, it will enjoy a 3.2% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

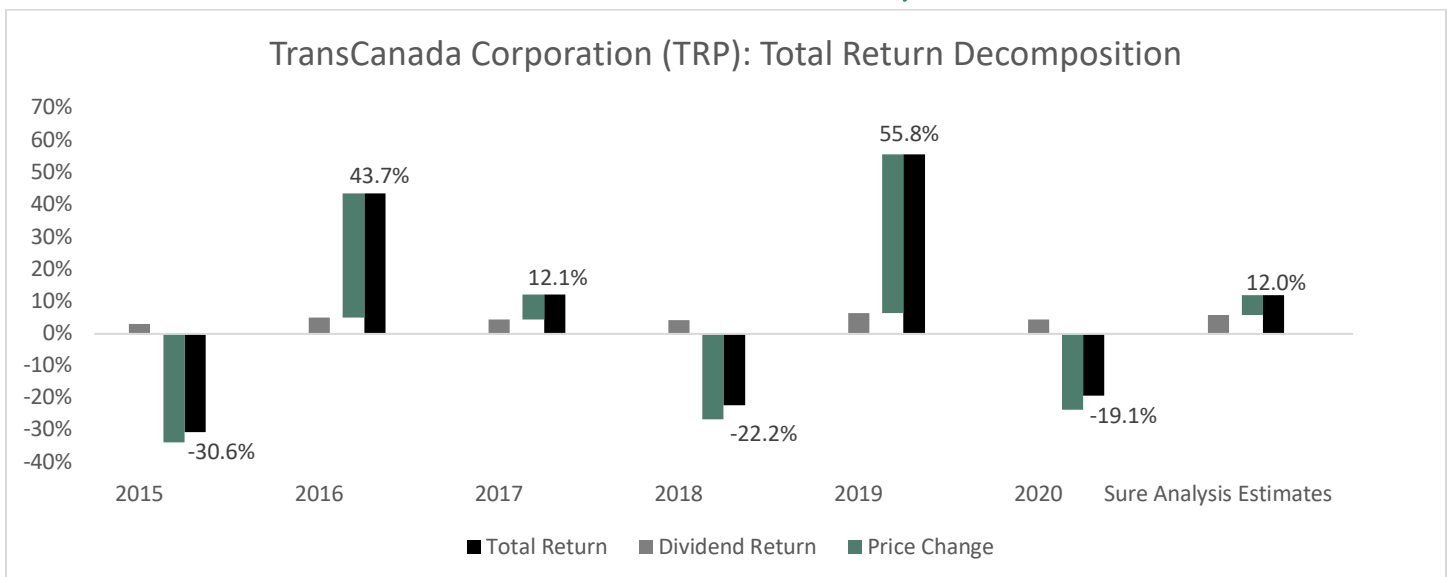
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	77.8%	95.7%	75.9%	78.3%	---	---	83.6%	71.4%	72.5%	72.8%	83.0%	79.1%

TC Energy has been investing heavily in growth projects in the last decade and will continue to do so in the years ahead. Consequently, it has posted negative free cash flows in 8 out of the last 10 years and has a leveraged balance sheet, with interest coverage of only 3.0x and net debt that is about 15 times its earnings. The company is exposed to unforeseen headwinds, such as a downturn in the energy market or a recession. In addition, as it often issues new shares, it dilutes its shareholders at a high rate whenever its stock declines. On the other hand, despite its high payout ratio, the stock is not likely to cut its dividend anytime soon thanks to the strong momentum in its business and the increasing contribution of new projects to its cash flows. TC Energy has also proved fairly resilient in the ongoing recession, which has hurt the natural gas market much less than the oil market.

Final Thoughts & Recommendation

TC Energy Corporation has proved resilient to the pandemic and it could offer a 12.0% average annual return over the next five years. It thus earns a buy rating. However, due to its high leverage, its poor free cash flows and its tendency to dilute shareholders, investors should take caution. There are other opportunities within the energy sector which have good return prospects at current prices and a less risky profile.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	7,928	8,009	8,543	9,226	8,895	9,475	10,377	10,556	9,987	9,702
Gross Profit	5,168	5,150	5,390	5,675	5,354	5,951	6,515	7,156	7,308	7,226
Gross Margin	65.2%	64.3%	63.1%	61.5%	60.2%	62.8%	62.8%	67.8%	73.2%	74.5%
D&A Exp.	1,343	1,375	1,442	1,459	1,383	1,464	1,586	1,813	1,857	1,933
Operating Profit	2,783	2,573	2,793	2,982	2,767	3,036	3,501	4,384	4,359	4,332
Operating Margin	35.1%	32.1%	32.7%	32.3%	31.1%	32.0%	33.7%	41.5%	43.7%	44.6%
Net Profit	1,599	1,354	1,734	1,667	(898)	176	2,436	2,857	3,119	3,445
Net Margin	20.2%	16.9%	20.3%	18.1%	-10.1%	1.9%	23.5%	27.1%	31.2%	35.5%
Free Cash Flow	1,186	973	(1,047)	(101)	(35)	(176)	(1,774)	(2,592)	(829)	(804)
Income Tax	582	466	593	753	27	266	(69)	333	568	145

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	46,369	48,648	50,619	50,415	46,406	65,307	68,470	72,627	76,002	78,657
Cash & Equivalents	641	554	871	421	613	754	866	327	1,028	1,200
Acc. Receivable	1,072	1,057	1,054	1,131	999	1,539	2,006	1,861	1,854	1,695
Inventories	243	225	236	252	233	273	301	316	346	493
Goodwill & Int.	3,881	3,888	4,312	4,817	4,933	11,906	10,879	11,181	9,866	9,943
Total Liabilities	28,484	30,216	31,708	32,624	33,324	46,036	47,086	49,872	51,201	52,715
Accounts Payable	682	928	813	1,399	1,085	1,812	2,264	2,367	2,537	2,397
Long-Term Debt	21,097	22,297	24,202	24,451	25,282	33,269	34,601	36,887	38,200	38,865
Total Equity	15,251	15,769	15,695	14,485	10,045	15,039	16,747	18,618	20,503	21,502
D/E Ratio	1.28	1.31	1.39	1.49	2.13	1.85	1.74	1.71	1.62	1.58

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	3.4%	2.9%	3.5%	3.3%	-1.9%	0.3%	3.6%	4.0%	4.2%	4.5%
Return on Equity	10.4%	8.7%	11.0%	11.0%	-7.3%	1.4%	15.3%	16.2%	15.9%	16.4%
ROIC	4.1%	3.4%	4.1%	3.9%	-2.2%	0.4%	4.5%	4.9%	5.1%	5.4%
Shares Out.	704.0	705.0	707.0	709.0	702.6	863.8	881.4	918.0	938.0	940.0
Revenue/Share	11.28	11.34	12.07	12.99	12.55	12.47	11.87	11.69	10.73	10.32
FCF/Share	1.69	1.38	(1.48)	(0.14)	(0.05)	(0.23)	(2.03)	(2.87)	(0.89)	(0.86)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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