



TC Energy Corporation (TRP)

Updated November 17th 2022 by Aristofanis Papadatos

Key Metrics

Current Price:	\$48	5 Year CAGR Estimate:	10.6%	Market Cap:	\$48.3 B
Fair Value Price:	\$53	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	12/29/2022
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Dividend Payment Date:	1/31/2023
Dividend Yield:	5.5%	5 Year Price Target	\$64	Years Of Dividend Growth:	7
Dividend Risk Score:	F	Retirement Suitability Score:	D	Rating:	Hold

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. It owns more than 58,000 miles of natural gas pipelines and more than 3,000 miles of liquids pipelines and operates in three segments: Natural Gas Pipelines, Oil Pipelines, and Energy. The Natural Gas Pipelines segment generated 75% of the total earnings in 2020 and 2021. TC Energy Corporation is headquartered in Calgary, Alberta, Canada, and its stock is cross listed on the Toronto Stock Exchange and the New York Stock Exchange, where it trades with a market cap of US\$48.3 billion. In this report, all figures are in U.S. dollars.

In early November, TC Energy reported (11/9/22) financial results for the third quarter of fiscal 2022. It is largely insulated from downturns, including the pandemic, thanks to its regulated assets and its long-term contracts, which generate 95% of its EBITDA. As a result, its flows and utilization rates have remained firm. On the other hand, TC Energy has benefited much less than most energy companies from the rally of gas prices to multi-year highs, which has resulted from the war in Ukraine. In the third quarter, TC Energy enjoyed almost record volumes in its network and grew its earnings-per-share 8% over the prior year's quarter.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$1.84	\$2.28	\$2.12	-\$1.26	\$0.12	\$2.38	\$2.97	\$3.18	\$3.31	\$3.35	\$3.30	\$4.01
DPS	\$1.76	\$1.73	\$1.66	\$1.50	\$1.68	\$1.99	\$2.12	\$2.31	\$2.41	\$2.76	\$2.64	\$3.29
Shares¹	705.0	707.0	709.0	702.6	863.8	881.4	918.0	938.0	940.0	981.0	1,015.0	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 \$25 billion of growth projects underway, including \$6.5 billion of projects delivered in 2022. These projects are supported by regulated or long-term contracted business models. TC Energy expects earnings to keep growing in the years ahead. We expect 4% annualized growth over the next five years, lower than the 6.9% average annual growth rate over the last decade due to the high comparison base this year. Management has already raised the dividend by 3.4% this year (in CAD) 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 to be on the safe side.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	23.9	20.2	22.5	---	---	24.2	14.3	15.1	13.9	14.4	14.5	16.0
Avg. Yld.	4.0%	3.8%	3.5%	3.8%	4.0%	4.1%	5.0%	4.8%	5.2%	5.7%	5.5%	5.1%

¹ In millions.

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Excluding 2015 and 2016, when the company's earnings were depressed, TC Energy has traded at an average price-to-earnings ratio of 18.6 over the last decade. The stock is currently trading at a price-to-earnings ratio of 14.5, which is lower than our assumed fair price-to-earnings ratio of 16.0. If the stock trades at our fair value estimate in five years, it will enjoy a 1.9% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

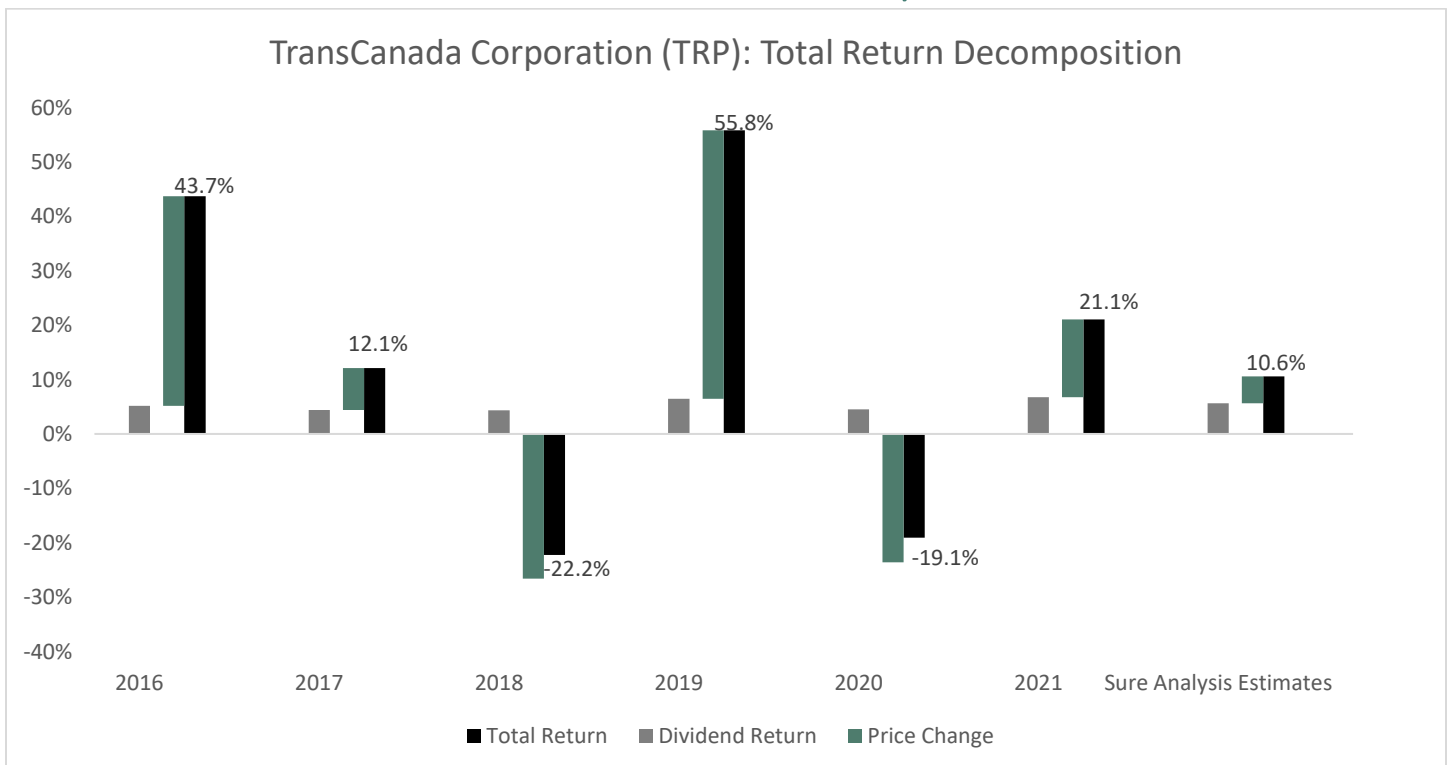
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	95.7%	75.9%	78.3%	---	---	83.6%	71.4%	72.5%	72.8%	82.4%	80.0%	81.9%

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 16 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 proved resilient to the pandemic, which hurt the natural gas market much less than the oil market.

Final Thoughts & Recommendation

TC Energy Corporation has been resilient throughout the pandemic, and it could offer a 10.6% average annual return over the next five years thanks to its 5.5% dividend, 4.0% earnings-per-share growth and a 1.9% annualized expansion of valuation level. It thus receives a hold rating. However, due to its high leverage, its poor free cash flows and its tendency to dilute shareholders, investors should be aware of the risk of the stock in the event of an unforeseen downturn.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	8,009	8,543	9,226	8,895	9,475	10,377	10,556	9,987	9,702	10,678
Gross Profit	5,150	5,390	5,675	5,354	5,951	6,515	7,156	7,308	7,226	8,597
Gross Margin	64.3%	63.1%	61.5%	60.2%	62.8%	62.8%	67.8%	73.2%	74.5%	80.5%
D&A Exp.	1,375	1,442	1,459	1,383	1,464	1,586	1,813	1,857	1,933	2,012
Operating Profit	2,573	2,793	2,982	2,767	3,036	3,501	4,384	4,359	4,332	4,711
Operating Margin	32.1%	32.7%	32.3%	31.1%	32.0%	33.7%	41.5%	43.7%	44.6%	44.1%
Net Profit	1,354	1,734	1,667	(898)	176	2,436	2,857	3,119	3,445	1,559
Net Margin	16.9%	20.3%	18.1%	-10.1%	1.9%	23.5%	27.1%	31.2%	35.5%	14.6%
Free Cash Flow	973	(1,047)	(101)	(35)	(176)	(1,774)	(2,592)	(829)	(804)	770
Income Tax	466	593	753	27	266	(69)	333	568	145	96

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	48,648	50,619	50,415	46,406	65,307	68,470	72,627	76,002	78,657	81,738
Cash & Equivalents	554	871	421	613	754	866	327	1,028	1,200	528
Acc. Receivable	1,057	1,054	1,131	999	1,539	2,006	1,861	1,854	1,695	2,425
Inventories	225	236	252	233	273	301	316	346	493	568
Goodwill & Int.	3,888	4,312	4,817	4,933	11,906	10,879	11,181	9,866	9,943	9,868
Total Liabilities	30,216	31,708	32,624	33,324	46,036	47,086	49,872	51,201	52,715	55,546
Accounts Payable	928	813	1,399	1,085	1,812	2,264	2,367	2,537	2,397	3,281
Long-Term Debt	22,297	24,202	24,451	25,282	33,269	34,601	36,887	38,200	38,865	41,384
Total Equity	15,769	15,695	14,485	10,045	15,039	16,747	18,618	20,503	21,502	23,360
D/E Ratio	1.31	1.39	1.49	2.13	1.85	1.74	1.71	1.62	1.58	1.59

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.9%	3.5%	3.3%	-1.9%	0.3%	3.6%	4.0%	4.2%	4.5%	1.9%
Return on Equity	8.7%	11.0%	11.0%	-7.3%	1.4%	15.3%	16.2%	15.9%	16.4%	7.0%
ROIC	3.4%	4.1%	3.9%	-2.2%	0.4%	4.5%	4.9%	5.1%	5.4%	2.4%
Shares Out.	705.0	707.0	709.0	702.6	863.8	881.4	918.0	938.0	940.0	981.0
Revenue/Share	11.34	12.07	12.99	12.55	12.47	11.87	11.69	10.73	10.32	10.96
FCF/Share	1.38	(1.48)	(0.14)	(0.05)	(0.23)	(2.03)	(2.87)	(0.89)	(0.86)	0.79

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

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