



TC Energy Corporation (TRP)

Updated February 17th 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	\$42	5 Year CAGR Estimate:	11.4%	Market Cap:	\$43.1 B
Fair Value Price:	\$49	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	3/30/2023
% Fair Value:	86%	5 Year Valuation Multiple Estimate:	3.1%	Dividend Payment Date:	4/28/2023
Dividend Yield:	6.6%	5 Year Price Target	\$57	Years Of Dividend Growth:	1
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

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 72%-75% of the total earnings in each of the last 3 years. TC Energy 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\$43.1 billion. In this report, all figures are in U.S. dollars.

In mid-February, TC Energy reported (2/14/23) financial results for the fourth 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, which has resulted from the war in Ukraine. In the fourth quarter, TC Energy enjoyed almost record volumes in its network and grew its earnings-per-share 6% over the prior year's quarter. It expects 5%-7% growth of adjusted EBITDA and modest growth of adjusted earnings in 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.28	\$2.12	-\$1.26	\$0.12	\$2.38	\$2.97	\$3.18	\$3.31	\$3.35	\$3.31	\$3.35	\$3.88
DPS	\$1.73	\$1.66	\$1.50	\$1.68	\$1.99	\$2.12	\$2.31	\$2.41	\$2.76	\$2.74	\$2.76	\$3.28
Shares¹	707.0	709.0	702.6	863.8	881.4	918.0	938.0	940.0	981.0	1,018.0	1,030.0	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 3% annualized growth over the next five years, lower than the 4.2% average annual growth rate over the last decade due to the high comparison base this year. Management has already raised the dividend by 3.3% 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 3.5% annual dividend growth going forward to be on the safe side.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	20.2	22.5	---	---	24.2	14.3	15.1	13.9	14.4	15.2	12.5	14.6
Avg. Yld.	3.8%	3.5%	3.8%	4.0%	4.1%	5.0%	4.8%	5.2%	5.7%	5.4%	6.6%	5.8%

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 17.5 over the last decade and at an average price-to-earnings ratio of 14.6 over the last five years. The stock is currently trading at a price-to-earnings ratio of 12.5, which is lower than our assumed fair earnings multiple of 14.6. If the stock trades at a price-to-earnings ratio of 14.6 in five years, it will enjoy a 3.1% annualized gain thanks to the expansion of its valuation level.

Safety, Quality, Competitive Advantage, & Recession Resiliency

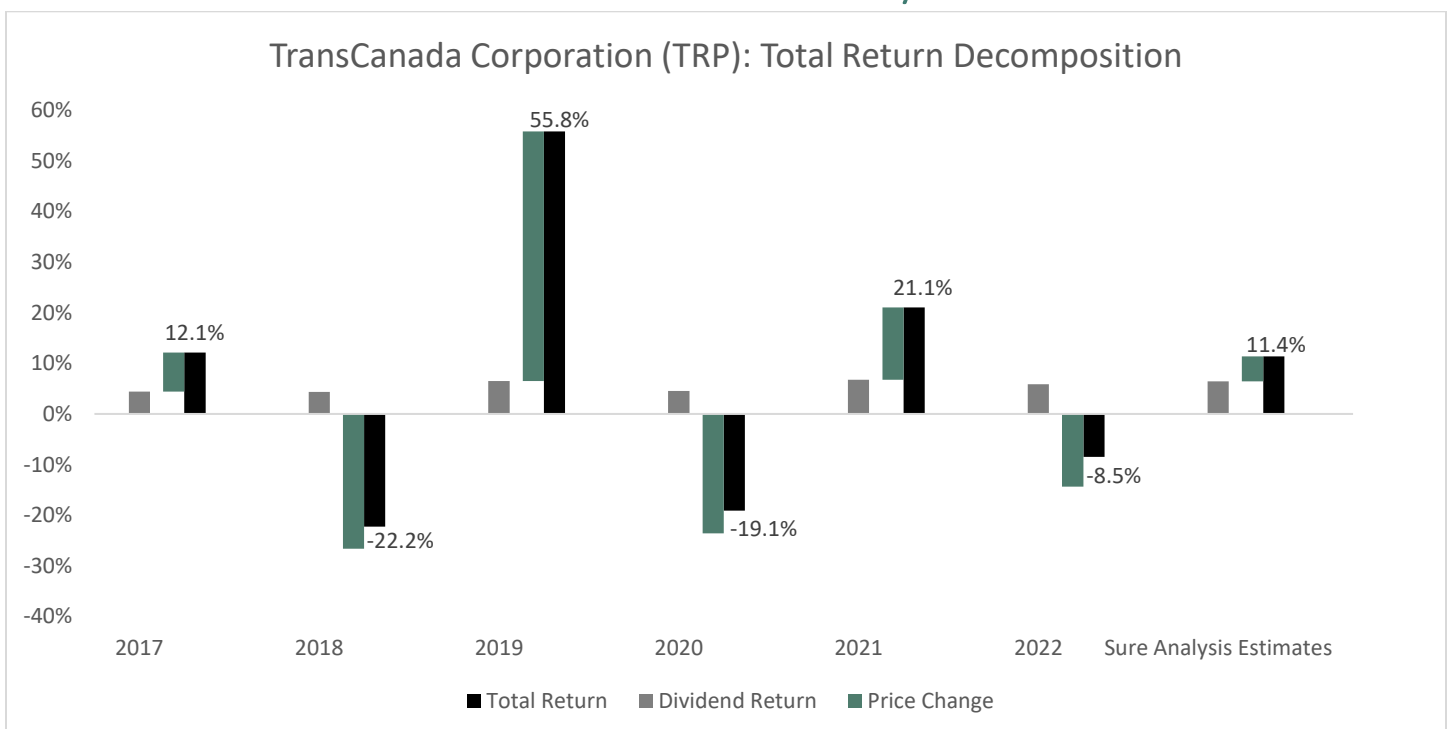
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	75.9%	78.3%	---	---	83.6%	71.4%	72.5%	72.8%	82.4%	82.8%	82.4%	84.4%

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 2.5x 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 an 11.4% average annual return over the next five years thanks to its 6.6% dividend, 3.0% earnings-per-share growth and a 3.1% annualized expansion of valuation level. It thus receives a buy 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	8,543	9,226	8,895	9,475	10,377	10,556	9,987	9,702	10,678	11,512
Gross Profit	5,390	5,675	5,354	5,951	6,515	7,156	7,308	7,226	8,597	5,324
Gross Margin	63.1%	61.5%	60.2%	62.8%	62.8%	67.8%	73.2%	74.5%	80.5%	46.2%
D&A Exp.	1,442	1,459	1,383	1,464	1,586	1,813	1,857	1,933	2,012	1,986
Operating Profit	2,793	2,982	2,767	3,036	3,501	4,384	4,359	4,332	4,711	4,672
Operating Margin	32.7%	32.3%	31.1%	32.0%	33.7%	41.5%	43.7%	44.6%	44.1%	40.6%
Net Profit	1,734	1,667	(898)	176	2,436	2,857	3,119	3,445	1,559	575
Net Margin	20.3%	18.1%	-10.1%	1.9%	23.5%	27.1%	31.2%	35.5%	14.6%	5.0%
Free Cash Flow	(1,047)	(101)	(35)	(176)	(1,774)	(2,592)	(829)	(804)	770	(271)
Income Tax	593	753	27	266	(69)	333	568	145	96	453

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	50,619	50,415	46,406	65,307	68,470	72,627	76,002	78,657	81,738	84,253
Cash & Equivalents	871	421	613	754	866	327	1,028	1,200	528	457
Acc. Receivable	1,054	1,131	999	1,539	2,006	1,861	1,854	1,695	2,425	2,670
Inventories	236	252	233	273	301	316	346	493	568	904
Goodwill & Int.	4,312	4,817	4,933	11,906	10,879	11,181	9,866	9,943	9,868	9,463
Total Liabilities	31,708	32,624	33,324	46,036	47,086	49,872	51,201	52,715	55,546	59,116
Accounts Payable	813	1,399	1,085	1,812	2,264	2,367	2,537	2,397	3,281	3,190
Long-Term Debt	24,202	24,451	25,282	33,269	34,601	36,887	38,200	38,865	41,384	42,956
Total Equity	15,695	14,485	10,045	15,039	16,747	18,618	20,503	21,502	23,360	23,203
D/E Ratio	1.39	1.49	2.13	1.85	1.74	1.71	1.62	1.58	1.59	1.72

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.5%	3.3%	-1.9%	0.3%	3.6%	4.0%	4.2%	4.5%	1.9%	0.7%
Return on Equity	11.0%	11.0%	-7.3%	1.4%	15.3%	16.2%	15.9%	16.4%	7.0%	2.5%
ROIC	4.1%	3.9%	-2.2%	0.4%	4.5%	4.9%	5.1%	5.4%	2.4%	0.8%
Shares Out.	707.0	709.0	702.6	863.8	881.4	918.0	938.0	940.0	981.0	996.0
Revenue/Share	12.07	12.99	12.55	12.47	11.87	11.69	10.73	10.32	10.96	11.56
FCF/Share	(1.48)	(0.14)	(0.05)	(0.23)	(2.03)	(2.87)	(0.89)	(0.86)	0.79	(0.27)

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

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