

# Equity Research Report



Energy Sector  
10/21/2011

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Stock Rating:

**BUY**

Sector Weighting:

**N/A**

Limit Buy Price: \$40.50

Price Target: \$44.00

Target Price Date: 03/31/2012

## COMPANY MARKET STATISTICS

Ticker: TRP

Exchange: TSE

Fiscal Year End December

52-week range (High/Low) \$35.49/\$44.06

Shares Outstanding 703M

Avg. Daily Trading Vol. 1.69m

Market Capitalization \$30.87B

Annual Dividend \$1.68

Dividend Yield 4.02%

Price/Earnings 21.67

Enterprise Value \_\_\_\_\_

EBITDA \_\_\_\_\_

Price to Book 1.88

BETA 0.43

Short Interest % \_\_\_\_\_

## HIGHLIGHTS

- +4% dividend yield
- Keystone XL
- North America's Second Largest Natural Gas Storage Operator
- Canada's Largest Private Sector Power Generator
- Over \$40 Billion in Assets

## OVERVIEW

TransCanada Corporation (TransCanada) is a North American energy infrastructure company focused on natural gas pipelines, oil pipelines and energy. During the year ended December 31, 2010, natural gas pipelines accounted for approximately 54% of its revenues, oil pipelines had no revenues and energy accounted for approximately 46% of the Company's revenues. TransCanada is engaged in development and operation of North American energy infrastructure, including natural gas and regulated gas storage facilities. The Company's Keystone is a crude oil pipeline system. The energy segment of TransCanada's business includes the acquisition, development, construction, ownership and operation of electrical power generation plants, the purchase and marketing of electricity, the provision of electricity account services to energy and industrial customers, the development, construction and ownership and operation of non-regulated natural gas storage in Alberta.

## REVENUE BREAKDOWN

Pipelines: 54%

Energy: 46%

## ANNUAL EARNINGS PER SHARE (EPS)

Current Year \$2.03

2010 \$1.78

2009 \$2.11

2008 \$2.53

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## PRICE CHARTS

### 1 Year Price Chart



52 week range is \$35.49 to\$44.06, with a general uptrend.

### 1 Year Price Comparison to Enbridge (blue) and TSX Energy Index (reference 0%line).



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Similar performance to competitor Enbridge; favourable performance to TSX Energy index which is the reference 0% line. The bar chart is TRP volume. The trend line below the volume chart is dividend yield which moves inversely to stock price.

## NEWS AND EVENTS

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There are no significant political risks in this industry. Dominant trends are that high-energy prices spur investment in energy supplies and infrastructure around the world. But as a result of increasing supply, energy prices will moderate. Prices will not return to the lower levels due to higher exploration and production costs for unconventional energy and ever-increasing world energy demand. (National Energy Board of Canada)Energy sellers and consumers recognize the economic benefits of an expanded market. However, geopolitical incidents continue to cause some energy market volatility. (National Energy Board of Canada)The energy sector is growing, with this year's sector expected to grow by 21%.

## COMPANY RISK

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The political risk for this is the concern of the impact of the new project Keystone XL, as many lobbyists have been raising issues on its impact to the environment. However, the project has gained approval from numerous environmental organizations in Canada to being safe to build.

There is no geographical risk because the world still has an abundant amount of oil. Some parts of Canada are developing hundreds of thousands of barrels of oil per day.

The company continues to grow, as oil will be higher and higher in demand, meaning the transportation business will grow as well. In addition, TransCanada's Keystone XL operation, which is planned at the moment, and will increase the amount of oil they will be able to transport from Canada to the United States to refine. The growth for this company for this year is expected to be 14.8%. Next year, the growth of this company is expected to be 8.9%.

"Pipeline" risks include "Natural Gas Supply, Markets and Competition", "Crude Oil Supply, Markets and Competition", "Regulatory Financial Risk", "Throughput Risk", and "Execution and Capital Cost Risk"

"Energy" risks include "Fluctuating Power and Natural Gas Market Prices", "Capacity Payments", "Uncontracted Volumes", "Liquidity Risk", "Plant Availability", "Weather", "Hydrology", "Execution, Capital Cost and Permitting", "Asset Commissioning", and "Regulation of Power Markets".

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**BETA**

0.43

**Moody's Rating**

Baa1

**PEER COMPARISON**

<u>Company</u>	<u>Ticker</u>	<u>Market Cap</u>	<u>P/E Ratio (TTM)</u>	<u>EPS Growth (5yr)</u>
<a href="#">TransCanada Corp</a>	<a href="#">TSE:TRP</a>	29.6B	20.87x	-3.44%
<a href="#">Enbridge Inc</a>	<a href="#">TSE:ENB</a>	26.4B	22.57x	10.76%
<a href="#">Altagas Ltd</a>	<a href="#">TSE:ALA</a>	2.3B	30.67x	-15.19%
<a href="#">Inter Pipeline Fund</a>	<a href="#">TSE:IPL</a>	4.2B	18.28x	107.93%
<a href="#">Pembina Pipeline Corp</a>	<a href="#">TSE:PPL</a>	4.3B	22.97x	6.53%

Enbridge is the only Canadian peer that is of similar market capitalization. Although Enbridge has better EPS growth, the positive effect of the oil pipeline segment of the TransCanada business creates superior forward looking performance.

**REVENUE AND EARNINGS**

The following information relates to TransCanada Corp. (TRP) revenue and earnings. All values in C\$ Millions.

**Revenue**

	Q1	Q2	Q3	Q4	Total
<b>2011</b>	\$ 2,243.00	\$ 2,143.00	\$ 2,316.80	\$ 2,275.00	\$ 8,977.80
<b>2010</b>	\$ 1,955.00	\$ 1,923.00	\$ 2,129.00	\$ 2,057.00	\$ 8,064.00
<b>2009</b>	\$ 2,179.00	\$ 1,984.00	\$ 2,049.00	\$ 1,986.00	\$ 8,198.00
<b>2008</b>	\$ 2,133.00	\$ 2,017.00	\$ 2,137.00	\$ 2,332.00	\$ 8,619.00

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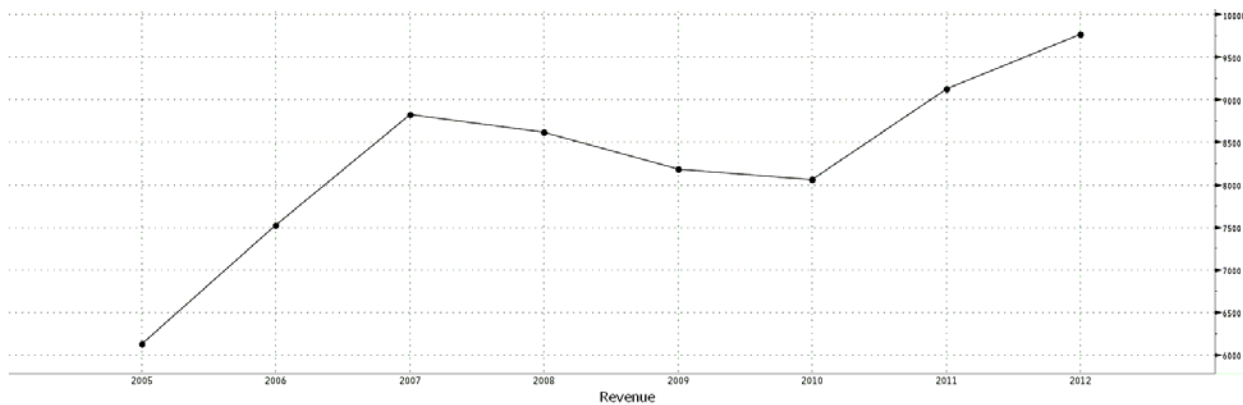
### Net Income

	Q1	Q2	Q3	Q4	Annual Total
<b>2011</b>	\$425	\$ 357.00	\$ 412.33	\$ 393.67	\$ 1,588.00
<b>2010</b>	\$328.00	\$ 288.10	\$ 374.00	\$ 384.00	\$ 1,374.10
<b>2009</b>	\$ 343.00	\$ 319.00	\$ 345.00	\$ 332.28	\$ 1,339.28
<b>2008</b>	\$ 326.00	\$ 316.00	\$ 366.00	\$ 277.00	\$ 1,285.00

### EPS

	Q1	Q2	Q3	Q4	Total
<b>2011</b>	0.61	0.51	0.57	0.56	2.25
<b>2010</b>	0.48	0.4	0.54	0.55	1.97
<b>2009</b>	0.55	0.51	0.5	0.48	2.04
<b>2008</b>	0.6	0.57	0.63	0.46	2.26

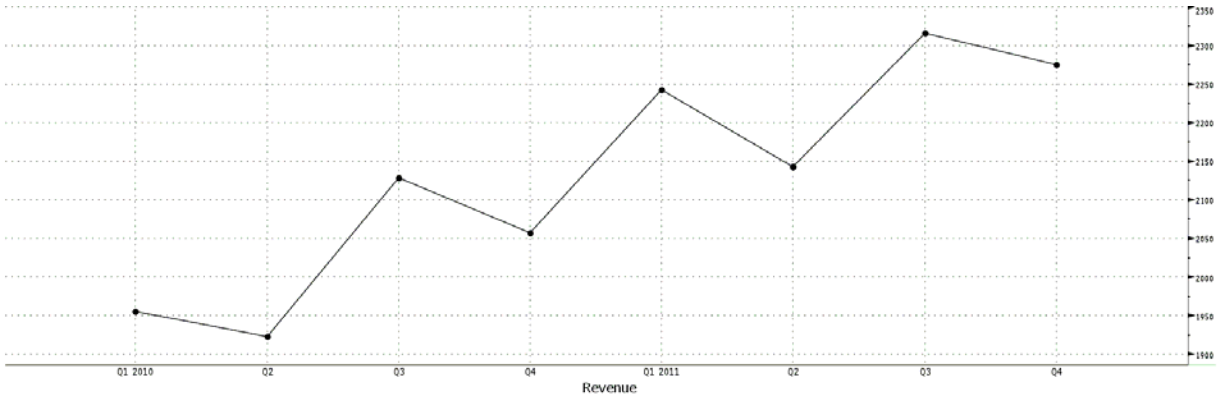
The following graphs show annual and quarterly revenue, net income and earnings per share information.



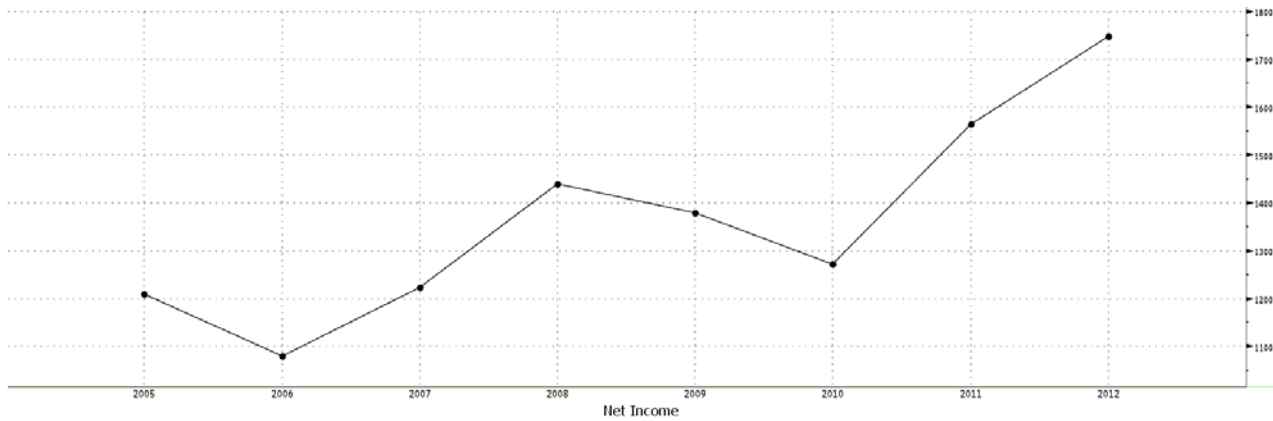
Annual Revenue

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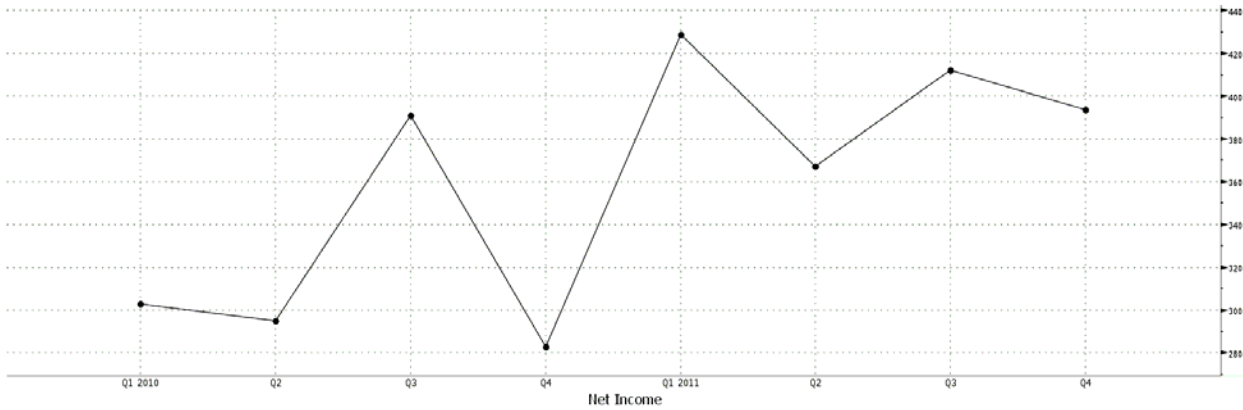
Quarterly Revenue



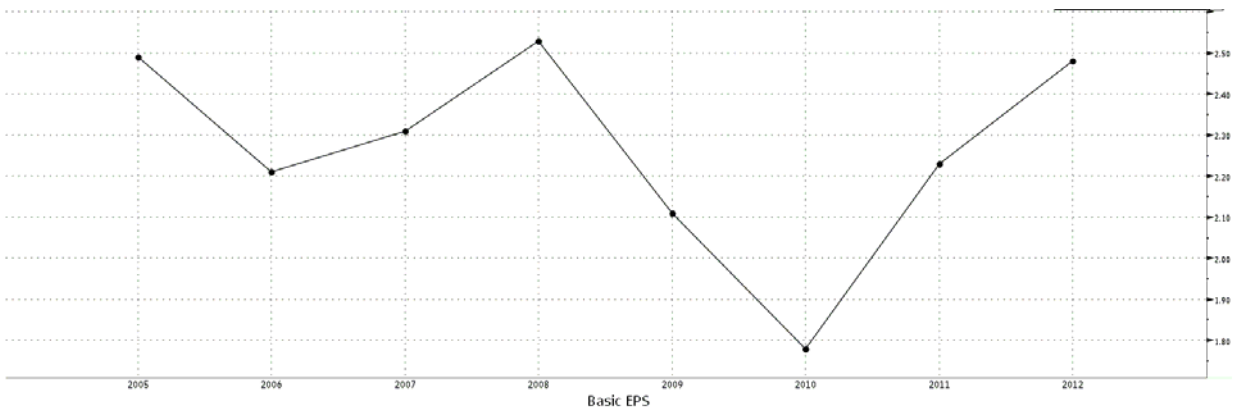
Annual Net Income

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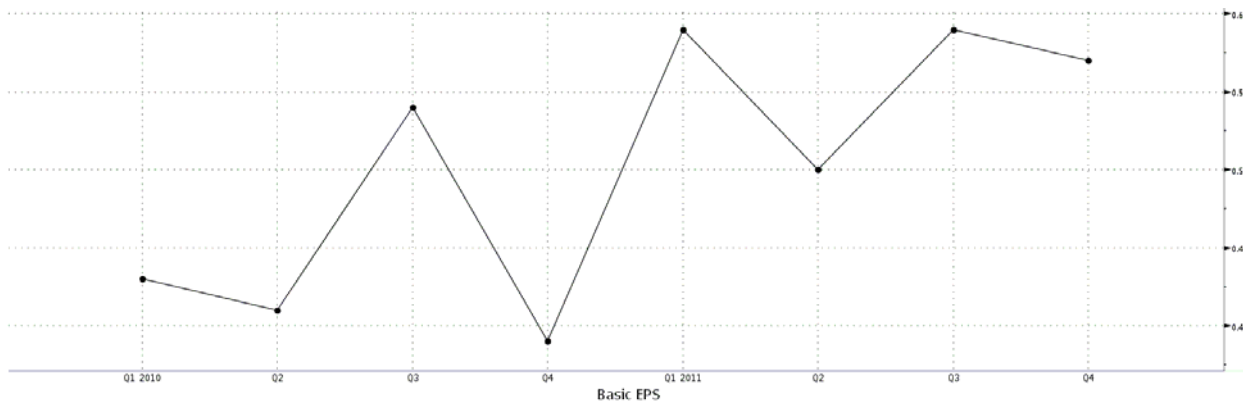




Quarterly Net Income



Annual Earnings per Share



Quarterly Earnings per Share

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## FUNDAMENTAL RATIO ANALYSIS

<b>Revenue Growth</b> 2.56%	<b>ROE</b> 9.06%	<b>Current Ratio</b> 0.60	<b>Price to Bo</b> 1.88
<b>Gross Margin</b> 43.96%	<b>ROA</b> 3.08%	<b>Quick Ratio</b> 0.36	
<b>Profit Margin</b> 17.13%	<b>P/E</b> 20.73	<b>Debt/Capital</b> 52.9	

Current ratios below 1.0 are common with pipeline companies. TransCanada has the ability to meet its short and long term commitments. Profitability measures are strong.

## CASH FLOW ANALYSIS

<b>Net Cash Position</b> \$	<b>Dividend</b> \$0.41	<b>Div. Growth Rate</b> 5.57	<b>Price/Cash Flow</b> 8.35
<b>FCF Per Share</b> \$0.35	<b>Dividend Yield</b> 3.87%	<b>Cash from Operation</b> \$900M	
<b>FCF Yield</b> -2.31%	<b>Dividend Payout</b> 0.84		

### Most Recent Quarter

<b>Net Cash Position</b> \$	<b>Dividend</b> \$1.60/yr	<b>Div. Growth Rate</b> ---	<b>Price/Cash Flow</b> 8.52
<b>FCF Per Share</b> \$-2.83	<b>Dividend Yield</b> 4.21	<b>Cash from Operation</b> \$3.082B	
<b>FCF Yield</b> -7.44%	<b>Dividend Payout</b> 0.90		

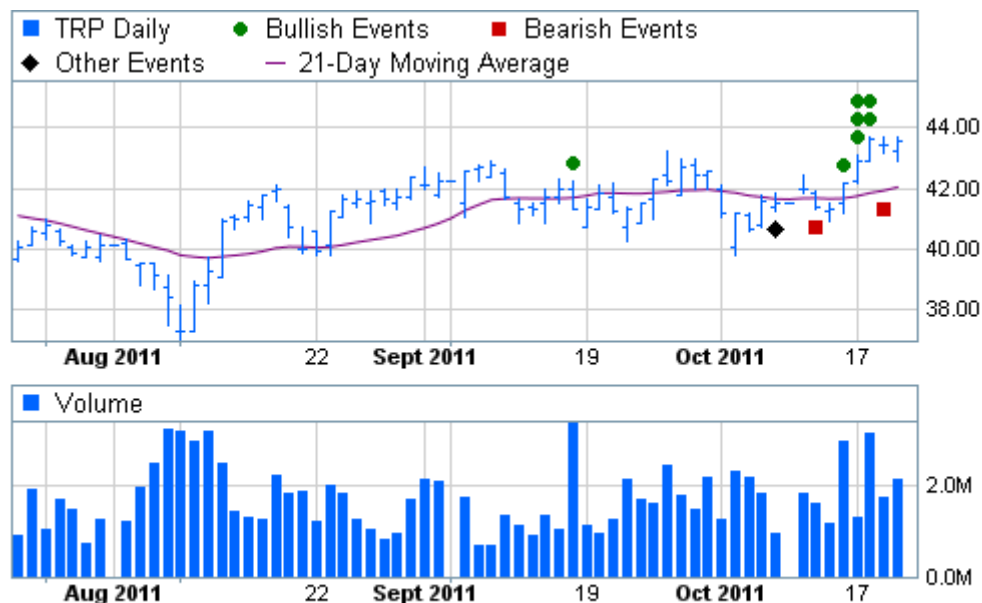
### Year Ending December 2010

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## TECHNICAL ANALYSIS

### Short Term Technical



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### TransCanada Corp (TRP:TSX)

Industry: Utilities

Competitors: ENB:TSX, IPL.UN:TSX, FTS:TSX, ALA:TSX, IMO:TSX

#### Highlights

Short-Term: 2 to 6 weeks

Technical Events **7 bullish** **2 bearish**

Support found at: **\$42.13**

Resistance found at: **\$43.67**

Stop Price

For long position: **\$41.71**

For short position: **\$45.21**

Based on Recognia Trailing Stop ("medium") assuming position entered at last close price. Stops are updated with each new close price.

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## Long Term Technical



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## TransCanada Corp (TRP:TSX)

Industry: Utilities

Competitors: ENB:TSX, IPL.UN:TSX, FTS:TSX, ALA:TSX, IMO:TSX

### Highlights

Long-Term: More than 9 months

Technical Events **4 bullish** **0 bearish**

Support found at: **\$37.30**

Resistance found at: **\$43.67**

Stop Price

For long position: **\$41.71**

For short position: **\$45.21**

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## SELECTION METHODOLOGY

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Focus on type of energy. Oil was the best choice because it is a global commodity with strong long term demand. The Keystone and Keystone XL oil pipeline projects will allow TransCanada to participate in the long term upside for oil. The imminent decision by the US government regarding Keystone XL provides strong upside for the club holding period.

Another requirement we have chosen is dividend yield. TransCanada Corporation issues dividends quarterly; the club will receive one dividend payment provided we buy the stock before the next ex-dividend date. Dividend yield is approximately 4% per year.

Finally, the stock is relatively stable; the business is fundamentally sound.

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