# 2 Reasons to Avoid Enbridge Inc. and 1 Stock to Buy Instead

## Description

**Enbridge Inc** (TSX: ENB)(NYSE: ENB) is without doubt one of the most popular stocks to own in Canada, especially among income investors. And there appears to be good reason — after all, Enbridge has paid a dividend for 60 straight years, and has increased its payout more than fivefold since 1994.



Better yet, Enbridge operates critical infrastructure and makes money off long-term contracts. This is perfect for paying and maintaining a high dividend.

But there are reasons to avoid the company, and two are detailed below. Then we take a look at one stock you should buy instead.

**1. A lot of financing needed**

If you take a look at 2013, Enbridge spent a lot more than it made. More specifically, cash flow from operations totaled $3.3 billion last year, not nearly enough to cover capital expenditures of $8.4 billion. Furthermore, Enbridge raised its dividend to $0.315 to start the year.

So how did it afford all this spending? About $3.4 billion of this came from issuing more debt — by the end of last year, total debt exceeded $23 billion. The company also raised $1.4 billion from issuing preferred shares. And finally, Enbridge raised a little over $600 million from issuing common equity.

So Enbridge's debt levels and its share count have been creeping up. Of course, this is understandable — in fact it is necessary — given the level of capital expenditure required to fuel its growth. But it's not what you want to see if you're seeking steady, reliable dividends.

**2. An expensive price**

It seems that everyone wants to own a piece of Enbridge, and the company's stock price reflects as much. To prove this point, it trades at about 25 times forward earnings.

Because of this expensive price, Enbridge has a fairly low dividend yield, currently sitting at 2.5%.

That's not a lot of yield for a company with such massive financing needs.

**1 stock to buy instead: TransCanada**

**TransCanada** (TSX: TRP)(NYSE: TRP) is Canada's other major pipeline operator, and it appears to be the better option, too.

For one, there has been less pressure on TransCanada to raise money. This is because capital expenditures only outnumbered cash flow from operations by $1 billion last year. So importantly, there was practically no need to raise common equity. To illustrate, the share count went from 705 million to 707 million in 2013, an increase of only 0.3%.

Secondly, TransCanada is slightly cheaper than Enbridge, trading at 23 times forward earnings. And this difference is even starker when looking at dividend yields — TransCanada yields a much more respectable 3.2%.

So with TransCanada, you get a company with a more measured approach, a cheaper price, and a better dividend. The choice should be clear.

**CATEGORY**

1. Dividend Stocks
2. Investing



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