



Enbridge Inc. vs. TransCanada Corporation: Which Is the Best Investment?

Description

Enbridge Inc. ([TSX: ENB](#))([NYSE: ENB](#)) and **TransCanada Corporation** ([TSX: TRP](#))([NYSE: TRP](#)) have fantastic track records of dividend growth and capital appreciation. The recent pullback in the markets is stirring up new investor interest in these two stocks, but there are a few things to watch out for down the road.

Let's take a look at both companies and see which one might be the better buy right now.

Enbridge Inc.

Investors looking to take a new position in Enbridge should start by analyzing the capital projects the company has planned for the next few years.

In its most recent earnings statement, Enbridge announced its capital project backlog is currently \$42 billion, of which \$37 billion represents commercially secured developments that will be completed and in service by the end of 2017.

Management is targeting annual earnings growth of 10% to 12% through 2017 and has stated that the dividend should trend higher with earnings.

The current dividend of \$1.40 per share yields about 2.6%. The shares have increased more than 300% in the past 10 years.

Before taking the plunge, investors need to understand how Enbridge's business model works. The company gives most of its free cash flow to investors as dividends, so it has to fund the largest portion of its capital projects by selling new common shares and issuing debt.

In the second quarter alone, Enbridge raised \$3.3 billion from the capital markets.

As long as interest rates remain low and investors are receptive to paying a premium for new shares, the model works.

Enbridge also has a system in place where it periodically “drops down” assets from one of its companies to another as a means of raising capital. Whether or not the process is good for investors is regularly debated, and is something potential owners of the shares should watch carefully.

Beyond 2017, growth is a bit unclear. The Canadian government has approved Enbridge's \$6.5 billion Northern Gateway project, and it will probably get built, but there is some uncertainty as to when it will be completed, and what the final cost will be.

The stock currently trades at about 36 times earnings and five times book value.

TransCanada Corporation

Natural gas pipelines make up the core of TransCanada's business although the company is shifting a significant part of its focus to liquids pipelines. TransCanada also owns storage and power generation facilities.

The battle to get the northern portion of TransCanada's Keystone XL pipeline approved has garnered much attention in the media, but the markets have not been overly concerned, partly due to the strong portfolio of other capital projects.

TransCanada currently has \$38 billion of projects commercially secured by long-term client contracts. The largest component, \$21 billion, is liquids pipelines. Another \$15 billion is dedicated to new natural gas pipelines. The company expects the current portfolio to add significant cash flow growth and corresponding dividend hikes through 2020.

Revenue from the power generation assets was disappointing in the last quarter but that should reverse in the near term. Strength in both the Mexican assets and the now-operational southern leg of Keystone helped offset the power division's weakness.

TransCanada pays a dividend of \$1.92 per share that yields about 3.3%. The stock is up more than 100% in the past 10 years.

The company trades at about 24 time earnings and 2.4 times book value. Hedge funds are starting to look at TransCanada as a target for unleashing value through a breakup of the company. If the story gains traction, TransCanada could trade at a higher multiple in the near term.

Which one should you choose?

Investors in Enbridge have certainly done better over the past 10 years. Right now, Enbridge is priced for perfection and the growth opportunities beyond 2017 are not yet clear. TransCanada has a higher dividend yield, and is currently much cheaper.

Both companies are solid investments, but I would pick TransCanada over Enbridge at this point in time.

CATEGORY

1. Energy Stocks
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1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TRP (Tc Energy)
3. TSX:TRP (TC Energy Corporation)

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