



TransCanada Corporation vs. Pembina Pipeline Corporation: Which Is the Best Investment?

Description

Shareholders of **TransCanada Corporation** ([TSX: TRP](#))([NYSE: TRP](#)) and **Pembina Pipeline Corporation** ([TSX: PPL](#))([NYSE: PBA](#)) have enjoyed solid dividend growth and capital appreciation for several years. The pipeline sector has recently pulled back a bit and new investors are wondering which company is the better buy right now.

Let's take a look at each one and see where the best opportunity might be for long-term investors.

TransCanada Corporation

With a network of more than 57,000 km of pipelines located in Canada, the U.S., and Mexico, TransCanada is one of North America's dominant players in oil and gas transport.

Natural gas pipelines make up the largest part of the company's business, but TransCanada has shifted its strategy somewhat. The current backlog of commercially secured projects includes \$21 billion of liquids pipelines, \$15 billion of natural gas pipelines, and \$2 billion dedicated to TransCanada's growing power-generation division.

The current focus of the pipeline industry is concentrated on helping customers move gas, crude oil, and natural gas liquids to the coast for export to lucrative international markets. TransCanada's Merrick Mainline Pipeline is a good example. The project will connect inland natural gas producers to the Kitimat LNG Terminal in British Columbia. From there, the liquified natural gas will be shipped to Asian markets. Merrick should be in operation by 2020.

TransCanada has a solid history of dividend growth and investors should see the payout increase in step with cash flow as the numerous capital projects go into service.

The current dividend of \$1.92 yields about 3.4%. TransCanada trades at 23 times earnings and about 2.4 times book. The company's market capitalization is about \$40 billion.

Pembina Pipeline Corporation

With a market capitalization of \$13.5 billion, Pembina is much smaller than TransCanada but continues to build on its unique network of pipelines and infrastructure assets. Few investors realize how important Pembina's network is for the movement of oil and natural gas liquids in western Canada. The company moves about 50% of the conventional oil produced in Alberta and roughly 30% of the western Canadian NGL production.

Similar to TransCanada, Pembina is investing in infrastructure to help its clients move resources to the coast. The company is building a \$500 million propane export terminal in Portland. The facility should be completed in 2018 and will have the capacity to ship 37,000 barrels per day to markets in Asia.

Another of Pembina's investments is a \$2 billion pipeline that will improve capacity along the core infrastructure route running between Edmonton and Taylor, B.C. The 540-kilometre phase 3 expansion is secured by long-term contracts with 30 of Pembina's customers.

Pembina trades at about 40 times earnings and about three times book. The company pays an annualized dividend of \$1.74 per share that yields about 3.7%.

Insiders at Pembina have been active buyers of the stock in the past few weeks. The company's CEO, Michael H. Dilger, made the largest purchase, snapping up 10,000 shares in the open market.

The bottom line

As long-term investments, both companies should continue to reward investors with dividend growth and capital appreciation.

Pembina's shares are expensive and the high multiple makes the company vulnerable to a sharp correction in the broader market or negative news on one of its projects. However, the insider buying activity at these valuations suggests senior management sees more gains. With a market cap of only \$15 billion and a portfolio of highly coveted assets, Pembina could easily become a takeover target.

TransCanada has an impressive backlog of capital projects investors can count on to drive higher cash flow and increased distributions through the end of the decade. Expansion opportunities are abundant in Latin America and the northern part of Keystone XL will probably get built.

Given the much lower price-to-earnings multiple and the size of the company's capital-project portfolio, TransCanada is probably a safer bet at current levels.

CATEGORY

1. Energy Stocks
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1. NYSE:PBA (Pembina Pipeline Corporation)
2. NYSE:TRP (Tc Energy)
3. TSX:PPL (Pembina Pipeline Corporation)

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