



Enbridge Inc. vs. TransCanada Corporation: Should You Buy, Sell, or Hold?

Description

October isn't over yet and investors' jitters are just about settling down after the correction the S&P/TSX saw over the last few weeks. Add tanking oil prices to the equation and I've heard several investors asking which energy company is the right buy at the moment: **Enbridge Inc.** ([TSX: ENB](#))([NYSE: ENB](#)) or **TransCanada Corporation** ([TSX: TRP](#))([NYSE: TRP](#)). The first thing that should be kept in mind for these kinds of companies is that they deal with the distribution/transportation of oil. They do not sell oil and thus are not majorly affected by oil price declines.

That said, let's take a look at both companies.

Enbridge Inc.

This company specializes in delivering and transporting crude oil (and) natural gas amongst others, and is the largest provider of petroleum transportation services in Canada. Its earnings for liquids pipelines in the second quarter increased 38% when compared to the same period last year. Despite crude prices falling, Canadian exports to the U.S. hit record highs last week. Additionally, Canadian production is expected to grow at 4% annually for the next 15 or so years.

Moreover, Enbridge doesn't really have much competition given the barriers to entry within the industry. The company has recently completed several projects, which are expected to add 850,000 barrels of crude daily. And there are more projects in the pipeline (no pun intended).

Besides this, the company is branching out into wind, solar, and geothermal energy. It recently announced a pact to purchase a stake in two wind projects based in Quebec, which will see Enbridge putting in about \$225 million.

Enbridge has a current yield of about 2.5% and pays a dividend of \$1.40. Although the stock was rather expensive over the summer (trading at around 80 times its trailing earnings and about 26 times its forward earnings), since the market correction from its September highs, Enbridge has now shaved off about \$5 from its 52-week high.

TransCanada Corporation

This company too that has lost some weight since September 19. The company is down a good \$10 from its 52-week high of \$63.8. TransCanada is a great energy company that has about 57,000 km of natural gas pipelines in North America.

There were a lot of rumours recently causing uncertainty amongst investors about the company. They entailed activist investors getting involved and causing the company to either break up or sell out. But many traders don't think these rumours are substantial.

TransCanada, like Enbridge, is another solid energy company. It is the third-largest natural gas storage provider in North America and owns and operates about 57,000 km of natural gas pipelines. Besides this, it also is diversified and continues to focus on growing its power generation business.

However, there's the Keystone XL pipeline that's holding TransCanada back but the market does not seemed too concerned about it given the company's other strong long-term projects, about \$38 billion in total.

The company currently pays \$1.92 dividend and that number is expected to grow by 5% annually over the next few years. So dividend seekers can rest assured knowing they will be rewarded.

Foolish takeaway

Considering both companies are great investments, picking one would depend on your investment goals. If you are looking at a long-term investment to hold for a few years, then I think Enbridge has a better edge. However, it would be an excellent purchase if bought under \$50. TransCanada, on the other hand, seems like its valuations are a little more stretched, making less room for dividend growth in the longer term (when compared to Enbridge).

CATEGORY

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

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