



## Should You Buy Enbridge Inc. or TransCanada Corporation Today?

### Description

It seems that pipeline companies are feeling the pinch of low oil prices. Both **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) and **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) are experiencing dips of 11% and 17%, respectively. Are these dips opportunities to get exposure to the energy industry?

Pipelines are certainly more stable than oil and gas producers, explorers, and integrated oil companies. Why? They mainly store and transport oil and gas, so they're less sensitive to volatile commodity prices. But which one should investors buy?

### Past performance

Here are the total returns with dividends reinvested for the two pipelines. This should shed some light on which company is the better one for total returns. In fact, we see Enbridge beating TransCanada in all four periods.

Pipeline	1-Year	3-Yr	5-Yr	10-Yr
Enbridge	17.4%	17.2%	22%	15.1%
TransCanada	6.9%	10.8%	11.5%	8.3%

Wait, let's take a step back and think about why Enbridge might give higher returns. Usually, higher returns implies higher risk. Is it true for Enbridge?

### Quality, yield, debt, and growth

Both pipelines have the same A-grade credit rating, so one could say that they're both high-quality companies. However, Enbridge has a higher percentage of debt and a lower yield. That means it has a higher chance of a default and returns cash via dividends at a slower rate than TransCanada.

Here's an overview of the companies as of June 4, 2015.

Company	Market Cap	Price	Yield	S&P	Credit Rating	Debt/Cap
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Enbridge	51.7B	\$59.2	3.1%	A-	60%
TransCanada	37.5B	\$51.8	4%	A-	50%

Enbridge has a capital program of \$44 billion, while TransCanada has \$46 billion. Enbridge expects earnings per share to increase by 10-12% each year while projecting dividends to grow at a compounded annual growth rate of 14-16%.

Comparatively, TransCanada's earnings growth is expected to be between 8-10%, and that's also the expected growth rate for its dividend.

### **Valuation and yield-on-cost projection**

The companies' steadily growing cash flows support the increasing dividends. Using the price-to-cash flow (P/CFL) metric to evaluate their valuations, Enbridge is priced at a P/CFL of 13.9 while TransCanada is priced at a P/CFL of 8.9.

Based on that multiple, Enbridge is 56% more expensive than TransCanada. However, Enbridge's projected income is expected to grow at a rate 60-75% faster than TransCanada. Then again, Enbridge's yield starts off lower than TransCanada's.

It doesn't matter if I project the yield on cost based on the lower end of the dividend-growth rates or based on the higher end; Enbridge's yield-on-cost still can't outrun TransCanada's by the end of 2018.

If using a dividend-growth rate of 14%, an investment in Enbridge today ends up with a yield on cost of 4.6% by 2018. If using a rate of 8%, an investment in TransCanada ends up with a yield on cost of 5%. Using the higher rate, Enbridge ends up with 4.8% while TransCanada reaches 5.3%.

### **Risk**

The pipeline industry looks to be poised for growth as both companies have a backlog of projects. However, where there are returns, risks exist.

The earnings growth projections by the companies could be lower than they predicted. If that happens, the price of the securities could drop further as their projects go online. There's also the risk of cost overruns.

### **In conclusion**

If you need more income now, TransCanada and its higher yield is your choice. Its total return is estimated to be 12-14%.

However, if you're looking for total return and can forgo some immediate income, Enbridge is the one with higher growth. Its past performance proves it's worthy of its higher multiple. Enbridge's total return is estimated to be 17-19%.

Of course, there's a third choice in this matter. Investors can opt to buy both for blended yield and growth, and spread the risk of your capital across two excellent companies.

### **CATEGORY**

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

## TICKERS GLOBAL

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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