The Safest Energy Stocks Are on Sale!

Description

The safest energy companies on the planet won't let fluctuating oil prices affect its business performance. They are oil and gas midstream companies **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP).

Since they're energy stocks, their prices have gone down along with the oil price plummet, but their cash flows remain strong. Their stock prices are more resilient than, say, oil and gas exploration companies and oil and gas equipment and services companies.

Safer business models

Enbridge and TransCanada are engaged with storing and transporting energy and gas via their pipelines. Once a pipe is built in a route, it makes it much less appealing to build another pipe in the same area.

So, there's a barrier of entry that creates a competitive advantage for existing businesses. As oil and gas flow through their pipes, and they receive cash flow from the transportation irrespective of the oil price.

Dividend growth

Enbridge's attractiveness comes from its history of paying and increasing dividends. In fact, it hiked its dividend at a compounded annual growth rate (CAGR) of 11-14% in the past decade. On top of that, it has paid out dividends for over six decades!

Enbridge forecasts its available cash flow from operations to grow at a CAGR of 18% from 2014 to 2018. Further, it forecasts its dividend to grow at a CAGR of 14-16% during that period. The strong cash flow allows for dividend coverage as well as room to redeploy cash to extend growth.

Then there's TransCanada, which also has a history of increasing dividends. For 14 years, it has increased it at a CAGR of 7%. Growth is expected from its $46 billion of commercially secured projects that are projected to be in service through 2020. TransCanada forecasts dividend growth to be at a rate of 8-10% annually through 2017.

In conclusion

At close to $51, Enbridge provides an attractive 3.6% yield. Shareholders can also reinvest its dividends at a 2% discount. If you're holding in a non-registered account, ensure that you keep track of the cost basis for tax-reporting purposes in the event you make a sale.

At close to $43, TransCanada provides an attractive 4.8% yield.

Both Enbridge and TransCanada are high-quality, stable companies that are poised for growth. It's just a matter of time. Between Enbridge and TransCanada, Enbridge is the one with higher growth, but it starts off with a lower yield.

If the companies continue growing dividends at the forecasted rates, it'll take Enbridge at least five years before catching up to the income TransCanada brings in for the same invested amount.

So, for income-oriented investors, they would probably prefer TransCanada. For investors interested in higher long-term returns, go for Enbridge. Of course, there's nothing wrong with owning both for a blended result.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

POST TAG

1. Editor's Choice

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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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