



3 Reasons to Prefer TransCanada Corporation Over Enbridge Inc.

Description

With the weakness in the energy sector, many investors have been on the lookout for ways to maintain their exposure to the sector without taking on the risk of owning risky producers who are exposed to the price of crude.

This has led many to the pipeline sector. Shares of the leading pipelines have been weak, but not nearly as bad as some of the producers, which appeals to both risk-adverse and value investors.

The pipelines also pay attractive dividends and have terrific moats. Companies like **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) and **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) have spent billions over the years building up their businesses. No upstart is going to show up and start taking away that market share.

Thus, the only real decision an investor has to make isn't whether or not they'll own a pipeline company, but rather which pipeline company is the best. While investments in both companies are likely to work out pretty well, here are three reasons why I prefer TransCanada over Enbridge.

Better valuation

Many investors insist on using metrics like the price-to-earnings ratio to value pipelines. I prefer to use enterprise value-to-EBITDA (EV/EBITDA) to value these companies.

Let's start with Enbridge. Including preferred shares, Enbridge has an enterprise value of \$89.8 billion as of June 30th. Over the last 12 months, it earned \$3.62 billion in earnings before interest, taxes, depreciation, and amortization. That gives the stock an EV/EBITDA ratio of 24.8.

Now for TransCanada. Also including the preferred shares, TransCanada has an enterprise value of \$64.70 billion. Over the last 12 months, it earned \$5.63 billion in EBITDA. That gives the stock an EV/EBITDA ratio of just 11.5.

It's not even close. TransCanada is much cheaper than Enbridge, at least on an EV/EBITDA basis.

The yield

If you're looking for income, both pipelines are a good choice. TransCanada happens to be a better one.

TransCanada shares currently yield 4.6%, while Enbridge shares only yield 3.4%. A difference of 1.2% might not seem like much, but look at it this way: if you invested \$50,000 in each company, TransCanada would pay you a yearly income of \$2,300. Enbridge would only pay \$1,700.

If Enbridge investors are looking for more income, I suggest the preferred shares. There are several issues that yield more than 6%. I personally own the series 13 preferred shares (ticker symbol ENB.PF.E), which currently yield 6.5%. You'll miss out on potential upside, but the extra yield could very much be worth it.

Interesting assets

Most of the market is focused on TransCanada's two big growth projects, Keystone XL and Energy East. Between those two projects and a few others, growth in EBITDA is expected to hit \$4 billion through the end of the decade. That's significant for a company that generated \$5.6 billion in EBITDA over the last year.

The problem is investors aren't sure either of the two big projects will ever happen. Both Keystone XL and Energy East have some very vocal opponents.

If either of Keystone XL or Energy East do get approved, the stock could get a temporary pop on the news, since the market has discounted the chances of either of those projects happening.

Still, even without those mega-projects, TransCanada still owns some very attractive assets. It has quietly become Canada's largest power generator, owning nearly 11,000 MW worth of generating capacity.

I also like the fact that the company has so many natural gas pipelines. The popularity of natural gas as a fuel looks poised to skyrocket, especially after LNG transport terminals are built, which will allow Canada to export the fuel. Other potential growth areas for natural gas include converting coal-fired power plants, and use of it in vehicles. This is good news for a company with so many natural gas pipelines.

Both Enbridge and TransCanada are terrific companies. I just prefer TransCanada because of the power assets, the better dividend, and the cheaper valuation.

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