



## Which Pipeline Leader Should You Buy for a 5% Yield?

### Description

**Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) and **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)) are both North American energy infrastructure leaders. They both yield 5% today.

They have pulled back nicely this year, and that has led to historically high yields. Enbridge fell \$24 per share, or 36%, from its 52-week high, and TransCanada fell \$18 per share, or 31%, from its 52-week high.

Which one should you buy today?

Before deciding, let's go through the fundamentals of the companies first.

### Earnings forecast and payout ratio

Enbridge's 2015 adjusted earnings per share (EPS) forecast is \$2.05-2.35, which implies a payout ratio of 79.1-90.7%. On the other hand, TransCanada's 2015 EPS is expected to reach \$2.45, which implies a payout ratio of 85%. Both dividends are covered by earnings.

### Dividend-growth track record

Enbridge has increased its dividend for 19 consecutive years. It just announced another 14% raise for its 2016 dividend. So, that makes 20 consecutive years.

TransCanada has increased its dividend for 14 consecutive years, and it's anticipated to increase it again in the new year.

In the past 10 years, Enbridge has typically increased its dividend on average at 11-13% per year, while TransCanada has typically increased its dividend at 4-5% per year.

### Dividend-growth forecast

Enbridge has five-year growth plan. It started in 2014 and involves a \$38 billion capital program that will drive cash flows and support dividend growth at a CAGR of 14-16% through 2019.

TransCanada has \$13 billion of short-term projects and \$35 billion of commercially secured long-term projects that it anticipates to drive dividend growth of 8-10% on average per year through 2020.

### **Dividend yield**

Because Enbridge has already announced its dividend hike for 2016, its forward yield is 5% based on today's price of under \$42. TransCanada has yet to announce its dividend hike, so its forward yield is 5.4-5.5% based on today's price of \$41.30 per share.

### **Financial strength**

Enbridge has an S&P credit rating of BBB+, which indicates good financial strength. Its debt/cap is 62%.

Comparatively, TransCanada is financially stronger because it has an S&P credit rating of A- and debt/cap of 53%.

### **Valuation**

A conservative fair-value estimate of Enbridge is \$50. So, after the pullback it's discounted by at least 16% at about \$42. A conservative fair-value estimate of TransCanada is \$53. After the pullback it's discounted by at least 22% at about \$41.

### **In conclusion**

Foolish investors looking for a safe investment should go with TransCanada because it has a stronger balance sheet than Enbridge. If you're looking for income, go with TransCanada because its forward yield is higher than Enbridge's, because TransCanada hasn't announced the 2016 dividend increase yet.

If you're looking for long-term price appreciation, you might consider Enbridge instead because based on history and growth forecasts, it's anticipated to grow faster than TransCanada. However, the reason it's able to grow faster may be because it's more leveraged. Investors will be taking on more risk by buying Enbridge over TransCanada.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **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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