



The Important Reason to Buy This Pipeline Over Enbridge Inc. and TransCanada Corporation

Description

There's a lot to like about Canada's two dominant pipeline operators: **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) and **TransCanada Corporation** ([TSX:TRP](#))([NYSE:TRP](#)).

Warren Buffett talks a lot about investing in companies with moats—a sustainable competitive advantage over competitors. Both these companies have been in business for years, slowly building up a network of pipelines that can't be replicated by some start-up, no matter how much money that company may have.

Another reason is predictable cash flow. Energy companies need a way to deliver crude to refineries. The easy (and cheap) way to do this is through pipelines. Depending on the location, it costs half or a quarter as much to transport crude through a pipeline versus using rail. This advantage ensures an energy producer will always use a pipeline if the option exists.

Both Enbridge and TransCanada have used profits to take care of shareholders as well as expand their empires. Both companies own both oil and natural gas pipelines as well as power plants and other energy assets. And both have announced recent acquisitions in the United States.

Overall, I'd say that both Enbridge and TransCanada are solid investments—the kind of companies that can be tucked away inside a portfolio for a long while. There's just one problem.

Expansion difficulties

Like many people, I watched the North Dakota pipeline protests with interest.

Although neither TransCanada or Enbridge was affected in any way (**Energy Transfer Partners** is building that particular pipeline), it goes to show just how much political opposition there is to pipelines in 2016.

Both TransCanada and Enbridge haven't been immune to this backlash. TransCanada's controversial Keystone XL pipeline extension was officially squashed by the Obama administration in 2015 after

years of protests. And Enbridge's proposed Northern Gateway project through northern British Columbia was rejected by Justin Trudeau's government just a few weeks ago after it faced heavy criticism from First Nations peoples.

This presents a problem for the oil industry. Shale drilling is a very big deal and will continue to be over the next few decades. There's a lot of oil in these remote locations. But with oil prices so low, most can't afford to transport by rail. If pipelines continue to be met with such strong resistance, then transportation becomes a big issue.

These protests are one reason why Enbridge and TransCanada recently went looking for acquisitions. Yes, both have billions in expansion projects still in the works, and it looks like the new Trump administration will approve Keystone XL once the president-elect takes office. Still, it's hard to be bullish on the ability to aggressively expand in most areas. It's just too unpopular.

The alternative

Fortunately for investors, there's another option. Canada has a pipeline company that operates in a friendly area, is backed by a sympathetic government with growth potential already baked in. That company is **Inter Pipeline Ltd.** (TSX:IPL).

Inter operates primarily in Alberta with a focus on the oil sands. It has three main pipelines servicing the region with a combined capacity of about four million barrels per day. The current volume is two million barrels per day. When the oil sands start expanding again—and they will; it's only a matter of time—Inter is positioned well to benefit.

The company is also expanding into the natural gas business, acquiring the midstream business from Williams Canada for \$1.35 billion. These originally cost \$2.5 billion to build and will be immediately accretive to the bottom line. These assets are located in Alberta, of course. The province is perhaps the friendliest place to run an energy company in North America.

Best of all? Inter pays a 5.8% dividend versus payouts of less than 4% for both TransCanada and Enbridge. Getting paid to wait is nice. Getting paid almost 6% to wait is fantastic.

The bottom line

There are plenty of reasons to like TransCanada or Enbridge. Unfortunately, the political part of pipelines is not a story that's going to go away anytime soon. For that reason, I'd be more inclined to own Inter Pipeline at this point than its two larger rivals.

CATEGORY

1. Dividend 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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