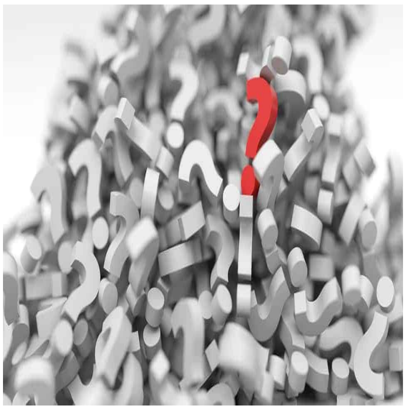

Better Buy: Enbridge Inc. or Algonquin Power & Utilities Corp.?

Description

If you're an income investor, then you've likely either invested in or watched pipelines and renewable energy stocks of late. Both sectors offer huge dividend yields with the potential for generous dividend hikes and capital gains.

If you've been following the pipelines, then you're probably aware that **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) has been taking a hit on the chin of late, with a dividend yield (currently at ~5.3%) which keeps getting higher as the stock continues its plunge.

Enbridge is a terrific company with a predictable revenue stream and a promising history of dividend hikes. Although shares have been picking up negative momentum, there's a great deal of value to be had for patient investors with a long-term horizon.

While Enbridge may seem like a must-buy for income investors today, renewable energy stocks such as **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN) make a strong case for why it should be your best buy today.

The stock is up ~25% over the past year and currently yields a whopping 4.35%. Renewable energy is the future, and the government is likely to be a friend to renewable energy companies rather than a foe, as it's been with the pipelines.

Valuation

Shares of Enbridge currently trade at a 23.6 price-to-earnings multiple, a 1.5 price-to-book multiple, a 1.5 price-to-sales multiple, and a 9.9 price-to-cash flow multiple, all of which are in line or substantially lower than the company's five-year historical average multiples of 65.6, 4.5, 1.4, and 12.8, respectively.

The stock is dirt cheap and would be an attractive pick to a value-conscious investor. In addition, the large dividend yield is almost a full percentage point more than that of Algonquin.

Shares of Algonquin currently trade at a 33.6 price-to-earnings multiple, a 1.9 price-to-book multiple, a 2.8 price-to-sales multiple, and a 13.7 price-to-cash flow multiple, all of which are in line with or slightly higher than the company's five-year historical average multiples of 33.6, 1.8, 2.6, and 12.7, respectively.

Based on historical averages, Algonquin is fairly valued, but when compared to Enbridge, the stock has a premium price tag because of the unique nature of Algonquin's assets (such as water utilities) and the predictable cash flow stream, which is expected to support annual dividend hikes of at least 10%.

Bottom line

Enbridge and Algonquin are both fantastic picks right now. Retirees who are hungry for more yield and a cheaper price may find Enbridge more attractive, but personally, I think Algonquin is the better buy today, even if shares appear to be on the expensive side.

You're paying for exceptional quality, and you'll essentially future-proof your portfolio if you've got a time horizon beyond 10 years.

Although I prefer Algonquin for the long haul, investors may want to take a position in Enbridge as well, since shares are ridiculously cheap, and I don't suspect the company will remain in the doghouse for very long.

In short, both stocks are great buys for income investors, but if I had to choose one, I'd go with Algonquin, because I'm a huge fan of the unique assets, which I believe will hold up very nicely in the event of an economic downturn.

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