Enbridge Inc. vs. Emera Inc.: Which Utility Stock Is a Better Buy for 2018?

Description

Income investors seeking stability in their dividend income should consider buying Canada's utility stocks in 2018.

Utilities companies are among the best dividend-paying companies in Canada. They not only provide stability, but they also offer consistent dividend growth. Due to these benefits, large institutional investors, global fund managers, and retail investors love Canadian utilities and keep them in their long-term income portfolios.

Among them, **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **Emera Inc.** (TSX:EMA) are two top names due to their superior performance and predictable income potential. Let's find out which one is a better buy for 2018.

Enbridge

Enbridge has six decades of history of delivering solid value to its shareholders. The company operates the world's longest crude oil and liquids transportation system in North America with a leading position in gathering, transportation, processing, and storage of natural gas. Enbridge serves about 3.5 million retail customers in Ontario, Quebec, New Brunswick, and the state of New York.

Pipeline operators have reliable income streams driven by the industry's toll-taker business model with long-term, take-or-pay contracts. Their clients are usually top-notch customers, such as refineries and mid-stream oil and gas companies. This feature makes their revenues stable and dividends more secure.

Enbridge's stock currently offers ~5%, which is a much higher than its average five-year yield of about 3% and the industry average of 2.75%.

The company's management during recent weeks has reiterated its plans to increase its dividend by 10% each year through 2020, helped by its massive growth projects in North America after its acquisition of Spectra Energy last year.

Emera

The Halifax-based Emera is a much smaller utility, but with a great growth potential. The biggest growth driver for Emera is its acquisition of TECO Energy, Inc. last year. This deal has created a combined entity which is among the top 20 North American regulated utilities, adding significant growth opportunities.

According to the management, this acquisition is likely to boost Emera's earnings per share 5% in 2017 and 10% by 2019. Due to the significant earnings and cash accretion expected from the TECO Energy acquisition, and combined with the growth potential for the merged businesses, the management plans to increase dividend payouts 8% annually through 2020.

Emera gets more than 85% of its consolidated earnings from its regulated business, which is a great stabilizing factor for its bottom line and cash flows. Regulated earnings growth is expected to support the company's 8% per year dividend-growth target through 2020.

Investor takeaway

Enbridge stock trades at a multiple of ~24.76 at $49.19 per share after a pullback of ~13% in 2017. With analysts' 12-month consensus price target of $58 a share, Enbridge offers an upside potential of 18% in 2018.

At $46.82 per share, Emera trades at a multiple of 17.55, with an equally attractive dividend yield of 4.37%. The stock has ~13% upside potential in the next 12 months as per the consensus price estimate by analysts.

I think these levels provide a good bargain for long-term investors who might consider taking advantage of these valuations. I would consider 50-50 allocation to these top dividend payers and lock in some of the juiciest yields in this relatively safe trade.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. TSX:EMA (Emera Incorporated)
3. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/08/26
Date Created
2017/12/30
Author
hanwar