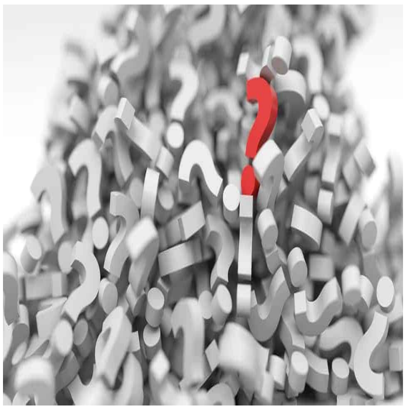

Enbridge Inc. vs. TransCanada Corporation: Which Is the Better Buy?

Description

Energy infrastructure stocks have declined meaningfully recently. **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) stocks have declined about 26% and 18%, respectively, from their 52-week highs.

Which is the better buy today? Let’s compare them.

Business overview

Enbridge is the largest North American energy infrastructure company, with an enterprise value of $163 billion at the end of 2017. Its operations cover key supply basins and demand markets in North America, so it can transport natural gas and energy as needed.

Enbridge has natural gas processing, storage, and transportation capabilities, as well as liquids pipelines. Further, it has 3.5 million retail natural gas customers and 2,200 MW of net renewable energy generation.

Enbridge has an S&P credit rating of BBB+, and its debt-to-cash-flow ratio is estimated to be 4.9 times this year.

TransCanada operates complementary businesses, including natural gas and crude oil pipelines, and power facilities sourced from wind, solar, and nuclear energy.

TransCanada has an S&P credit rating of A-, and its debt-to-cash-flow ratio is estimated to be 4.6 times this year.

Dividend

Enbridge offers an annualized dividend per share (DPS) of $2.68. The company is one of the top dividend growth companies in Canada; it has hiked its dividend for 22 consecutive years with a five-year dividend growth rate of 16.4%.

Management aims to increase the company's dividend by 10% per year through 2020. It currently offers a yield of nearly 6.3% at ~$42.80 per share.

TransCanada currently offers an annualized DPS of $2.50, which is based on its most recent quarterly dividend. It has hiked its dividend for 17 consecutive years, with a five-year dividend growth rate of 7.3%.

According to its usual schedule, TransCanada should be increasing its dividend soon. Management aims to increase the company's dividend by 8-10% per year through 2020. Assuming an 8% increase this quarter, TransCanada offers a forward yield of nearly 5.1% at just under $53 per share.

Potential returns

The consensus target from **Thomson Reuters** (TSX:TRI)(NYSE:TRI) has a 12-month target of $57.70 on Enbridge, which represents +34% upside potential. Throwing in the dividend, that's a near-term estimated total return of 41%.

The consensus target from Reuters has a 12-month target of $72.50 on TransCanada, which represents +36% upside potential. Throwing in the dividend, that's a near-term estimated total return of nearly 42%.

Investor takeaway

Historically, Enbridge has been the more aggressive grower. Its credit rating is lower than that of TransCanada; thus, its debt is more costly. That's why Enbridge's stock has had a more severe decline and offers a bigger yield.

Both companies should continue growing their dividends and are good buys. Conservative investors may choose safer TransCanada over Enbridge for potentially lower returns in the longer term.

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2. Energy Stocks
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