Enbridge Inc. vs. Emera Inc.: Which Top Dividend Stock Is a Better Buy?

Description

It seems a sell-off in Canada's energy infrastructure stocks is far from over. The bearish spell that started almost a year ago has wiped out a big chunk of their market caps and are pushing their valuations into an extremely attractive zone.

Let's see if **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and Emera Inc. (TSX:EMA) offer long-term value to investors who seek to take advantage of a dip in their share prices.

Enbridge

Enbridge has been one of the worst-performing blue-chip stocks in this downturn. Its share price has fallen 21% this year, extending a 30% plunge during the past 12 months.

The company has been caught up in many headwinds this year amid its transition to North America's largest energy infrastructure operator following its $37-billion acquisition of Spectra Energy last year.

First, interest-rate cycles reversed in North America, putting pressure on the utility companies' finances; pipeline operators borrow heavily from the market to fund their expansion. Enbridge has close to $30 billion of development programs in the pipeline and more than $60 billion debt on its balance sheet.

Another setback for Enbridge came in the form of a recent ruling by the U.S. Federal Regulatory Commission that eliminated some tax breaks for master limited partnerships (MLPs). **Enbridge Energy Partners L.P.**, a subsidiary of Enbridge, is one of them.

The ruling, according to the credit ratings agency DBRS Ltd., is likely to cut Enbridge subsidiary's revenues by $100 million this year, while its distributable cash flow would be $60 million lower as a result of the change.

Emera

Emera, on the other hand, is a less risky bet in this environment of gloom for Canadian utility stocks. The Halifax, Nova Scotia-based Emera has been growing its operations in North America and the Caribbean countries, a diversification that's working in the company's favour.

The biggest growth driver for Emera has been its acquisition of TECO Energy, Inc. in 2016, creating a combined entity that's among the top 20 North American regulated utilities. In 2017, Emera's operating cash flow surged by 41% to $1.297 billion, helped by the successful integration of TECO Energy.

Emera stock has lost about 13% this year, as investors shunned stocks that are sensitive to interest rate moves. But this temporary pullback offers an opportunity to long-term income investors to buy this solid dividend stock.

Trading at $40.76, Emera's shares now yield an attractive 5.5%. This annual dividend yield comes with a multiple of 14.1 times estimated 2018 earnings, which is close to the company's historical low of about 14 last reached during the financial crisis.

Which one is a better buy?

In the current environment, I find Emera a better deal for conservative investors who don't have much appetite for risk. Another reason to like Emera stock is that the utility 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.

For Enbridge, 2018 is looking to be a tough year when it has to satisfy its investors that it has the muscles to deal with the rising debt cost and successfully complete its growth projects. That said, I still believe the company's long-term value is intact, so if you have the stomach for higher risks, then its 7% dividend yield looks too tempting to ignore.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing
4. Top TSX Stocks

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
4. Top TSX Stocks

Date
2025/08/27
Date Created
2018/03/30
Author
hanwar