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

Description

Energy has been one of the hottest-performing sectors of the market so far in April, and stocks like **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) and **Cenovus Energy Inc.** (TSX:CVE)(NYSE:CVE) have proven no exception, up 24% and 12%, respectively, since the beginning of the month.

Yet no discussion about Canada's energy sector would be complete without including **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) in the mix.

The old saying "a rising tide lifts all boats" is true of the stock market. But when you're putting your hard-earned capital at risk in the markets, you certainly want to feel like you're getting the most bang for your buck.

So, which investment makes the most sense for your portfolio today between these two-dividend paying companies — TransCanada or Enbridge?

Understanding the differences between TransCanada and Enbridge

Because they are both known as a high-yielding dividend-growth stocks, and because they both operate in the energy sector, TransCanada and Enbridge often get lumped in together.

But there are some important differences in terms of what the two companies actually do.

For one, TransCanada generated half of its revenues and over 60% of its earnings before interest, taxes, depreciation, and amortization (EBITDA) from its Canadian and U.S.-based natural gas pipelines network.

Enbridge, however, has generated the vast majority of its revenues and earnings from the transportation of crude liquids.

Granted, Enbridge will start making a lot more money from its natural gas business following the acquisition of Spectra Energy, but even still, the company expects to generate over half of its EBITDA in 2018 from its liquids business with about a third of cash flows coming from its gas transmissions and midstream operations.

So, if you have bias towards one business or the other, that in and of itself could tilt the scales in one direction over another.

It also means you could probably get away with owning both companies and not have to worry a whole lot about being over-concentrated in the sector.

Understanding the similarities between TransCanada and Enbridge

There are some startling similarities between Canada's two largest energy infrastructure companies, and the good news is that those similarities bode well for both companies' futures.

One is that both companies currently have extensive backlogs in place that will help to carry them through the end of the decade.

TransCanada currently has more than $23 billion in commercially supported near-term projects that will provide a runway of growth for the company through to 2020.

Beyond that, TransCanada also has $24 billion of projects in place that are directed towards medium- and longer-term goals.

Enbridge, meanwhile, is no slouch either.

Canada's largest publicly traded energy company placed $12 billion worth of new projects into service in 2017 and has over $11 billion of projects underway, including the company's largest ever: its Line 3 Replacement project.

Who has the better dividend?

Both companies are on record promising shareholders healthy increases to their dividends over the next few years.

TransCanada has said it expects to grow its dividend towards the upper end of its 8-10% range through 2020 with an anticipated 8-10% hike in 2021.

Again, Enbridge is no slouch in this regard either.

The company says it intends to grow its current payout by an annual compound growth rate of 10% through 2020.

Bottom line?

This one looks as though it's a dead heat right down to the wire and, frankly speaking, both companies appear to offer encouraging prospects for medium- and long-term investors.

At the end of the day, determining which company would be right for you probably comes down to the qualities you're looking for in investment.

If you're focused primarily on dividends, Enbridge's current 6.75% yield probably makes it the superior of the two in light of the stated plans for dividend increases over the next few years.

TransCanada is only about two-thirds the size of Enbridge as it stands today and has a sizable advantage when it comes to previously announced projects in its backlog.

If you're one of those wondering if Enbridge is starting to reach a saturation point, you might find you're better off going with smaller, nimbler TransCanada.

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3. NYSE:TRP (Tc Energy)
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