



## Enbridge Inc. vs. TransCanada Corp.: Better Buy on the Dip?

### Description

If you're a contrarian value investor who's interested in locking in an above-average dividend yield relative to their principal, it's hard to ignore the Canadian mid-stream energy stocks. They appear to be severely undervalued after experiencing bouts of weakness over the last few years.

**Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)) and **TransCanada Corp.** ([TSX:TRP](#))([NYSE:TRP](#)) are two former market darlings that are down from all-time highs by ~37% and ~15%, respectively. Both stocks offer above-average dividend yields of 6.5% and 5%, respectively, at the time of writing, and each dividend is expected to continue to grow over the foreseeable future in spite of their recent troubles.

Both stocks remain dividend-growth kings that look poised to continue their respective annual dividend growth streaks, but which, if any, is the better buy into weakness?

### Enbridge

A high yield, a double-digit dividend growth rate and above-average capital gains. That's what Enbridge was known for prior to its 2015 tumble that saw the stock become a falling knife before bouncing back and falling to even lower lows, trapping many bulls in process.

Although Enbridge stock no longer offers investors the best of both worlds in the form of high capital gains to go with its juicy dividend yield, two of the three traits that made Enbridge a must-have holding are still intact. In fact, the dividend yield is over double of what it was prior to the initial collapse in shares. And this, combined with vastly cheaper shares should have many investors hungry to add to their positions gradually on the way down.

As a falling knife with a considerable amount of negative momentum, the stock remains technically unsound; however, investors shouldn't be afraid to nibble away at shares with the expectation that the stock will continue to fall.

With **Spectra Energy Partners, LP**'s promising natural gas assets in the mix and a plan to further sell non-core assets in order to cut down on its debt load, I think it's just a matter of time before Enbridge shares finally bottom out. However, with no real near-term catalyst on the horizon, investors will need

to exhibit patience with the name. The massive 6.5% dividend provides a huge incentive to those who are willing to hang in there in spite of the continued doom and gloom sentiment regarding many aspects of the business.

### TransCanada

Unlike Enbridge, TransCanada isn't as technically horrifying, but for that, you're getting 1.5% less yield.

Management is committed to a capital expenditure plan by which \$23 billion will go toward short-term projects, with \$24 billion being invested into longer-term initiatives. These projects will fuel a considerable amount of top-line growth over the next five years and will support further annual dividend increases in the 8-10% range over the foreseeable future.

The stock trades at a 2.2 P/B, a 3.6 P/S, and a 9.1 P/CF, all of which are lower than the company's five-year historical average multiples of 2.4, 3.8, and 9.4, respectively.

With an intriguing growth pipeline, a discounted valuation, and a yield that's over 1% more than it normally is, I think TransCanada is a smart buy on the dip for income-oriented contrarians.

### **Better bet?**

You can't go wrong with either stock at these levels, as both are undervalued and offer a solid dividend that will likely continue to grow by as much as 10% over the medium-term.

Enbridge's deeper discount and higher yield may be more compelling to deep-value investors who can stomach short-term losses, but TransCanada appears better suited to an investor who's looking for a quicker bounce back.

If I had to choose one, I'd go with TransCanada because there appear to be more promising nearer-term growth catalysts that can bring the stock out of its funk over the near-term. If possible, I'd recommend buying both today, however, especially if you intend to own shares for many years as you rake in the huge dividend payments.

Stay hungry. Stay Foolish.

### **CATEGORY**

1. Dividend Stocks
2. Energy Stocks
3. Investing

### **TICKERS GLOBAL**

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TRP (Tc Energy)
3. TSX:ENB (Enbridge Inc.)
4. TSX:TRP (TC Energy Corporation)

### **PARTNER-FEEDS**

1. Msn
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### **Author**

joefrenette

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