



## Why I Think TransCanada (TSX:TRP) Is a Better Investment Than Enbridge (TSX:ENB) Right Now

### Description

I've been [bullish](#) on the stock of **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) for most of the past year or so — even owning the shares at one point — but after giving it more thought in recent weeks, I've begun to change my tune.

While I don't currently own shares in either company right now, if I was going to buy the stock of either Enbridge or TransCanada today, I believe I would tend to favour the shares of **TransCanada** ([TSX:TRP](#))([NYSE:TRP](#)) over its larger rival, and here's why.

At the end of the day, the argument really boils down to what I see as the superior growth potential offered by an investment in TransCanada today.

As most are probably already aware by now, last year Enbridge made a big splash with the closing of its acquisition of Houston-based Spectra Energy.

While I still like the deal, as I think it gives the company a better, more diversified portfolio of cash flows, and I still think the market has overreacted in its disapproval of said deal since it was announced, the Spectra acquisition cost Enbridge \$37 billion, which led to the company taking on nearly double the value of debt that it had on its books prior to the transaction in order to finance the purchase.

Mind you, I'm not as concerned the added debt load as maybe some others are, but even despite that, it remains hard to argue against fact that this development will most likely hamper Enbridge's capacity to pursue such aggressive dividend increases as it has in the past — and the type of dividend increases that shareholders have become accustomed to.

To be fair, both Enbridge (\$60 billion market capitalization) and its smaller rival TransCanada (\$39.5 billion market capitalization) are both expecting to raise their respective dividend payouts by between 8% and 10% over the next three years, so when you look at that aspect in isolation, it may not appear there's much of a discrepancy between the two companies.

However, when you parse the two companies' guidance in finer detail, Enbridge is on record stating it expects to grow its distribution by a compound annual growth rate of 10% between 2018 and 2020.

Meanwhile, TransCanada is guiding shareholders for annual dividend growth at the upper end of its 8-10% range but also goes on to say that it expects to increase the dividend by another 8-10% in 2021 — a little competitive posturing between Canada's two largest pipeline players?

Maybe. But maybe there's more to it.

Following in the wake of the Spectra deal, Enbridge now has to focus on getting its financial obligations back in order, which have, to date, included several successful — [and encouraging](#) — asset sales.

That Enbridge — at least to my knowledge — has yet to counter with stated plans for its 2021 dividend it is, at the very least, notable.

With asset sales pending that unquestionably add uncertainty to how cash flows will look in 2021, along with the still-pending Line 3 Replacement program up in the air, it's easy to understand why Enbridge's management and board of directors have, up to this point, decided to play their cards closer to their chest.

## Bottom line

It could be that later this year that Enbridge announces that it expects to match TransCanada's expected dividend increase in 2021 with one of its own.

But until then, I'm inclined to favour TransCanada's size advantage — the fact that it is still only two-thirds the size of its larger peer — because I believe in the law of large numbers and that I think this simply gives the managers at TransCanada more runway to work with as they continue to pursue additional large-scale growth projects.

And at least so far, it appears the market agrees with that sentiment — TRP stock is up a little more than 49% since the beginning of 2016, while ENB stock has gained a little under 22% over the same period.

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