Is Picking Up Enbridge's (TSX:ENB) Stock on a Dip Right Now the Best Play?

Description

Enbridge (TSX:ENB)(NYSE:ENB) stock has gained more than 21.5% from its late April lows, at one point gaining over 29% over a 17-week stretch.

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But having given back some of those gains in recent weeks, and with the ENB stock trading just a shade above its 200-day moving average, is now a time to be getting in or adding to your position in Canada's largest pipeline company?

Enbridge stock has been gaining momentum in recent months thanks to a wave of positive developments happening at the company.

Its largest infrastructure project ever in the company's history, the Line 3 Replacement program, is progressing nicely, including a favourable Minnesota court ruling earlier this year.

That program, if and when it were to go through, would significantly add to the existing Line 3 capacity, adding a new and improved source of revenues, cash flows, and profits that can in turn be distributed to the company's shareholders.

In addition, management has been successful this year in executing several key strategic asset sales for billions of dollars that are expected to be used to retire the company's outstanding debt obligations, helping to put Enbridge's balance sheet back on more firm footing following its transformative mega-merger with Spectra Energy last year.

Restoring investors' faith in the company's financial flexibility should help to ease any fears critics may have held regarding the sustainability of Enbridge's current 5.94% annual dividend yield.

While one could argue that its payout ratio, which currently sits at 177%, suggests that some form of dividend cut could be imminent, the forthcoming Line 3 project — along with CEO Al Monaco's assertion that he expects pipelines to be operating at capacity for the foreseeable future and stated plans to increase Enbridge's dividend by another 8-10% over the next couple of years — suggests otherwise.

Give yourself a game plan

So, following a period of successive years where ENB stock has struggled to make gains, it looks like the momentum has started to turn back in its favour.

But given that ENB shares are already up 21% from their lows, is it too late to get in?

It really depends on your motivations.

For RRSP investors and those pursuing a buy-and-hold approach favouring a long-term outlook, now is probably as good a time as any to initiate a position in the company or add on the latest pullback.

If Enbridge's board of directors follow through on their stated plans for future dividend increases, that would mean the stock is currently trading at two-year forward yield of close to 6.9%, which is particularly attractive in light of the 10-year Government of Canada Bond, which currently yields something closer to 2.25%.

In essence, you'd be getting a better yield on top of arguably improved growth prospects.

But while ENB stock may make a whole tonne of sense for more patient, long-term investors, if this Fool was going to try his luck looking out just a few months from now, I might find myself favouring the smaller, nimbler **TransCanada** (TSX:TRP)(NYSE:TRP) instead.

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TransCanada is a significantly smaller company than Enbridge, which, you could argue, gives it a longer runway to work with. And while ENB stock has shown better momentum over the past several months, a quick look at the chart of TRP stock suggests the latter has stronger momentum behind it over the past two-and-a-half years.

Conclusion

It's a great problem to have, really.

We have two blue-chip, high-yielding, dividend-paying stocks that should, in theory, provide solid returns for investors for years to come, and that, more than likely, should reward shareholders short term as well.

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