Which Is Canada's Best Energy Infrastructure Stock?

Description

Oil's latest rally came to an end with a grinding thud because of the emergence of a range of bearish factors that are weighing on energy markets. Despite this, the North American benchmark West Texas Intermediate (WTI) has still gained a respectable 16% for the year to date.

Emerging catalysts are poised to push prices higher in the coming months, including supply constraints in the Middle East and diminishing shale oil growth. This makes now the ideal time for investors to add energy stocks to their portfolio.

While upstream oil producers are garnering the most attention, it is Canada's energy infrastructure companies that offer a compelling mix of growth and income. This then raises the question, which of the three largest is the superior investment?

Now what?

default watermark

Enbridge Inc. (TSX:ENB)(NYSE:ENB) has been garnering considerable negative attention, as a perfect storm of rising interest rates, higher debt, and unfavourable tax rulings lessens its appeal. The midstream giant is down by 13% for the year to date and is the third most heavily shorted stock on the **S&P/TSX Composite Index**.

While Enbridge is facing a range of headwinds, management has embarked on a strategy aimed at minimizing their impact and positioning the company for growth. The push to reduce debt by selling non-core assets and simplifying its capital structure by rolling up its listed vehicles into a single entity has been key.

During the first half of 2018, Enbridge secured the sale of $7.5 billion of non-core assets, which is well above its 2018 target of $3 billion, the proceeds of which will be directed to strengthening its balance sheet. It also recently received a definitive agreement to acquire all the outstanding shares of **Spectra Energy Partners L.P.,** which will go a long way in completing its restructuring.

Enbridge is also on track to complete $7 billion of new projects over the course of 2018. This, along with a stronger balance sheet, additional financial flexibility and reduced costs will give profitability a solid lift. It will also boost the sustainability of Enbridge's dividend, which is yielding a very juicy 6%, further enhancing its appeal.

Pembina Pipeline Corp. (TSX:PPL)(NYSE:PBA) completed the transformative $9.7 billion acquisition of Veresen Inc. in 2017, thereby cementing its place as North America's third largest provider of infrastructure to the energy patch.

The addition of Veresen's $10 billion of assets saw first half 2018 earnings expand by an impressive 76% and Pembina report record EBITDA for that period of $1.4 billion.

Growing pipeline capacity and new projects coming online along with the realization of further efficiencies from the Veresen deal will continue to drive higher earnings. These factors will also enhance the sustainability of Pembina's monthly dividend, which is yielding a tasty 5%.

TransCanada Corp. (TSX:TRP)(NYSE:TRP) has seen its stock plunge by 11% since the start of 2018 as a new delay relating to its controversial Keystone XL pipeline arises. In mid-August, a U.S. District Court Judge ordered a new environmental study for the pipeline's route through Nebraska.

TransCanada has been trying to get the project off the ground since July 2008 and has routinely run afoul of environmental groups and regulators. This is weighing on its market value, especially as other midstream providers have been able to go ahead with a range of pipeline projects, expansions and extensions.

Nonetheless, this hasn't stopped TransCanada from growing its earnings and unlocking value for investors. For the first half of 2018, the company reported that comparable earnings per common share had risen by a healthy 17% compared to a year earlier, while cash flow from operations popped by a respectable 21%.

This was driven by stronger earnings from TransCanada's U.S. natural gas pipelines business and Trump's corporate tax reform.

Growing natural gas and oil production in North America because of higher oil prices and greater demand for energy will continue to drive earnings growth. That will be supported by TransCanada's $28 billion of near-term projects, which are under development and are expected to enter service between now and 2021.

default watermark

While investors wait for the company's earnings to grow, they will be rewarded by its regular sustainable dividend yielding just under 5%.

So what?

All three midstream and infrastructure providers to the energy patch are attractive investments. The controversy that continues to surround the Keystone XL pipeline does make TransCanada less appealing than either Enbridge or Pembina. As a result of its poor performance for the year to date, Enbridge is the most attractive, particularly given that it offers a 6% dividend yield and is successfully executing its program aimed at boosting financial flexibility as well as profitability.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:PBA (Pembina Pipeline Corporation)
3. NYSE:TRP (Tc Energy)
4. TSX:ENB (Enbridge Inc.)
5. TSX:PPL (Pembina Pipeline Corporation)

6. TSX:TRP (TC Energy Corporation)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Energy Stocks
3. Investing

Date
2025/09/09
Date Created
2018/09/18
Author
mattdsmith

default watermark

default watermark