Which Pipeline Stock to Buy? Enbridge (TSX:ENB) vs. TC Energy (TSX:TRP)?

Description

In a somewhat surprising development two of Canada's largest providers of infrastructure to the North American energy patch **Enbridge** (TSX:ENB)(NYSE:ENB) and **TC Energy** (TSX:TRP)(NYSE:TRP) are now the second and third most-shorted stocks on the TSX.

The short-sellers are wrong

While both companies are facing headwinds, there are signs that short-sellers will lose money. Not only is it a costly activity to short stocks that pay regular, growing dividends yielding 6% and 5%, respectively, but the climate surrounding the energy patch continues to improve.

The North American benchmark West Texas Intermediate (WTI) has gained 36% since the end of 2018, and that has incentivized domestic drillers to open the spigots and boost production. In an operating environment where pipeline exit capacity is already severely constrained, this is adding additional pressure to already significant pent-up demand for the utilization of Canada's petroleum infrastructure.

A key issue weighing on the outlook for both Enbridge and TC Energy is growing opposition to oil and natural gas pipelines in Canada and the U.S. Growing resistance in Minnesota was responsible for Enbridge pushing out the in-service date for its critical Line 3 Replacement project by around a year to the second half of 2020.

Investors are all too aware of the saga surrounding TC Energy's Keystone XL pipeline. The company is waiting for legal decisions in Nebraska and Montana relating to the path that the pipeline will take.

Growing earnings

While these issues are weighing on the outlook for both companies and their growth prospects, they haven't prevented earnings from expanding at a solid clip.

For 2018, Enbridge reported that distributable cash flow had shot up by 20% year over year to $4.42 per share and that adjusted earnings had grown an impressive 35% to $2.65 per share.

TC Energy announced a solid first-quarter 2019 performance, including a notable 16% year-over-year increase in comparable EBITDA and earnings that expanded by 9% to $1.07 per share.

Enbridge is unlocking greater value

Despite the headwinds, earnings will continue growing at a solid clip. It is here where I believe that Enbridge has the advantage over TC Energy.

You see, the midstream giant's ongoing focus on simplifying its corporate structure, dialling down debt and reducing costs will give profitability a tremendous boost over the remainder of 2019 and into 2020. Enbridge has already made significant inroads with those measures.

Enbridge announced that it had completed $7.8 billion of non-core assets sales during 2018, the proceeds of which will be directed to reducing debt to ultimately around 4.5 times EBITDA. Enbridge is also completing the roll-up of its sponsored vehicle, which simplifies the corporate structure, reduces costs, and improves its credit profile as well as corporate transparency.

Enbridge anticipates commissioning $16 billion of projects by the end of 2020, which will significantly boost the capacity of its pipeline network, allowing the company to take advantage of the considerable pent-up demand that already exists in the energy patch.

For those reasons, Enbridge's earnings will expand at a solid clip without the need for further significant investment.

It is also not facing the same degree of political uncertainty that surrounds TransCanada's Keystone XL pipeline.

The Line 3 replacement is critical to boosting pipeline capacity and preventing a repeat of the crisis which engulfed Canada's energy patch during the second half of 2018, when growing localized oil inventories caused the prices for Canadian oil benchmarks to collapse. That means it will receive considerable political support within Canada and from U.S. refiners, which are struggling to access enough heavy crude feedstock because of the marked decline of oil imports from Venezuela.

Enbridge also appears more attractively valued than TC Energy with a price of a mere 1.7 times its book value compared to TC Energy's 2.3 times. Then there is that juicy sustainable dividend yielding 6% compared to TC Energy's 4.7%, further bolstering Enbridge's appeal.

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mattdsmith