Is This a Better Midstream Stock Than Enbridge (TSX:ENB)?

Description

It seems that midstream behemoth **Enbridge** (TSX:ENB)(NYSE:ENB) can't go a week without garnering negative headlines. While the situation makes for interesting reading, it can't be an easy time for shareholders. The latest setback in a chain of challenges to its pipeline network is a legal challenge by a Wisconsin tribe angling for the closure of Enbridge's Line 5. The section in question is key to the Mainline network, capable of draining Alberta of 540,000 barrels per day.

More headlines than pipelines?

Enbridge has stated that it will look into re-routing the Line 5 pipeline in response to the Bad River Band tribe's challenge. Downplaying the seriousness of the setback, Enbridge said, "The vast majority of the easements through the reservation extend until 2043; those in question affect only a small fraction of the 12 miles of Line 5 within the reservation."

However, Enbridge continues to make smart moves in the areas it can control more easily, lowering oil transportation requirements by almost 66%. This opens the Mainline network to smaller producers, assuring Enbridge of a key section of the oil industry. It also marks a move away from a "skimming" business model to a "penetrating" one, targeting large numbers of smaller customers rather than a few large ones.

A rival fit for long-term investment

Perhaps Canadian investors should be looking at **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) instead for their midstream fix. Paying a chunky 5% dividend yield at today's prices, Pembina has a solid track record of payout hikes. One of the few such businesses to actually grow its income in the midstream space with a view to rewarding shareholders, Pembina might not pay the biggest yield, but that yield is well supported and backed up with future growth.

Should investors stick with the higher (6.67%) dividend yield offered by Enbridge? It may be tempting to stack shares of both companies in a portfolio, but the risk of overexposure should preclude such a move. For this reason, new investors should play it safe and plump for one stock rather than the other. Given Pembina's potential for growth, the smart money might be on this stock rather than Enbridge, despite that higher current dividend yield.

One key reason for an investor to choose Pembina over Enbridge is the growth afforded by the Peace Pipeline. Pembina approved an expansion of the Peace Pipeline system back at the start of the year, with Phase VIII set to advance the company's ultimate goal of a segregated liquids transport system encompassing ethane-plus, propane-plus, crude, and natural-gas condensate. It's ambitious, but not impossible, and could greatly reward shareholders.

The bottom line

Investors keen to add a pipeline stock to a long-range dividend portfolio might find that Pembina is the better option at the moment. While its yield is a little lower, there is a lot of growth potential here. The other reason why Pembina might be more suitable for a long-term position is that it offers more peace of mind than the currently embattled Enbridge — an elusive quality that shouldn't be overlooked in the turbulent oil patch.

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