Which Is a Better Dividend Stock for 2020: Enbridge (TSX:ENB) or Fortis (TSX:FTS)?

Description

You've come to the right place if you want to own solid dividend-growth stocks and make money.

Fortis (TSX:FTS)(NYSE:FTS) and **Enbridge** (TSX:ENB)(NYSE:ENB) are trustworthy utility or utility-like businesses that have been around for a long time. In fact, their dividend track records alone are something to admire.

Let's take a deeper dive to see which dividend stock may be a better investment for 2020 and beyond.

Business overview

Fortis was formed in 1987 and is now a top 15 North American utility. The virtually regulated utility has 10 utility operations across 3.3 million electric and gas utility customers and generates about 65% of its earnings from the United States. It expects organic growth to mainly come from its U.S. franchises over the next five years with an overall rate base growth of 6.3%.

Enbridge's roots go as far back as 1949, and it has transformed into the leader in delivering energy in North America. Its operations cover key supply basins and demand markets on the continent.

Enbridge has a large and complex network, including 41,850 kilometres of gas pipelines and 27,415 kilometres of active crude pipelines. Additionally, the company has gas distribution utilities and 1,750 megawatts of net renewable generation capacity. Most importantly, its cash flow is virtually regulated and very stable irrespective of energy price volatility.

Recent acquisitions

Fortis made three key U.S. acquisitions between 2013 and 2016. Notably, the U.S. dollar weakened against the Canadian dollar when Fortis acquired Central Hudson and UNS Energy. Since the acquisitions, the greenback has recovered about 20% of its strength against the loonie. Therefore, management made excellent use of capital there.

ITC Holdings, which Fortis acquired in 2016, was a key acquisition that added quality diversification as an independent transmission company that is regulated by the FERC.

Enbridge merged with Spectra Energy in 2017, adding key natural gas pipeline, storage, and processing assets to its portfolio, among other complementary operations.

ENB stock had a dip in earnings and cash flow in 2017. Therefore, there was short-term dilution for shareholders from which the company has, thankfully, recovered.

Dividend

Fortis offers a yield of roughly 3.3% and has increased its dividend for 45 consecutive years through recessions and different crises. The company’s payout ratio of about 70% is reasonable for the stable utility. Through 2023, management anticipates an average annual dividend growth of 6%.

Enbridge offers a juicy yield of 6.6% and has increased its dividend for 23 years straight through recessions and energy pricing crisis. The company’s payout ratio of about 66% is reasonable. It plans to increase the dividend by 10% next year.

Valuation

At about $54.30 per share, Fortis trades at about 21.6 times earnings, which is moderately overvalued compared to its long-term historical trading levels. At roughly $44.50 per share, Enbridge trades at about 7.8 times cash flow, which is undervalued.

Investor takeaway

Both Fortis and Enbridge are excellent dividend companies. However, an investment in ENB stock today should deliver markedly higher returns than an investment in FTS stock because of their valuations. Even without any multiple expansion, ENB stock can deliver total returns of about 12% per year over the next three to five years.

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kayng