



Better Dividend Buy: Enbridge (TSX:ENB) vs. Canadian National Railway (TSX:CNR)

Description

Dividend stocks are fast becoming an investor favourite once again as recession calls are getting louder heading into 2020. The global economic growth is slowing and PMI data for several countries points to an economic contraction. The yield curve has inverted and debt levels are at record highs, raising investor concerns higher.

The cannabis stocks have been decimated, and several high growth tech stocks such as **Shopify** and **Lightspeed** have witnessed a considerable pullback since September 2019.

So, is it time to play safe and move investments into stable companies with robust cash flow metrics, high dividend yields, a huge customer base that are somewhat recession-proof?

Here we look at two such Canadian heavyweights that should be solid wealth creators in the long term and have consistently increased shareholder value with solid dividend payouts.

Enbridge

Canadian energy company **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) is valued at \$96 billion and has overperformed the broader markets in the last year. Enbridge stock has gained close to 13% since October 2018 compared to the 6.5% return for the **S&P/TSX Composite Index**.

Enbridge is expected to grow sales by 6.4% to \$49.35 billion in 2019 and by 2% to \$50.37 billion in 2020. The stock is valued at 1.95 times forward sales. Analysts also expect the company's earnings per share (EPS) to rise 0.4% in 2019, 3.8% in 2020 and by an annual rate of 8.1% in the next five years.

This means that Enbridge's earnings will improve at a compound annual growth rate of 13% between 2021 and 2023. Comparatively, the stock is trading at a forward price to earnings multiple of 17, which looks reasonable, especially after accounting for its forward dividend yield of 6.2%.

At the end of the June quarter, Enbridge had an operating cash flow balance of \$8.63 billion, while the debt stood at \$67 billion. The company's high payout ratio of 119% may concern investors, as Enbridge has a cash balance of \$710 million. This provides Enbridge with little leeway to invest heavily in capital expenditure or increase dividend payouts.

Enbridge has been [paying dividends for 64 years](#) and increased its payouts by 12.1% annually over the last two decades. The company has now targeted a dividend payout ratio of 65%. Its return on equity stands at 7.35%, while return on assets is 3.2% in the trailing 12-month period.

The stock has a beta of 1.02, indicating low volatility. Analysts have a 12-month average target price of \$54.11 which is 14% higher than the current target price.

Canadian National Railway Company

Canadian National Railway Company ([TSX:CNR](#))([NYSE:CNI](#)) is valued at \$82.4 billion, having gained just over 3% since October 2018.

CNR is expected to grow sales by 8.2% in 2019 and by 6.5% to \$50.37 in 2020. The stock is valued at 5.4 times forward sales. Analysts also expect the company's earnings per share (EPS) to rise 11.9% in 2019, 11% in 2020 and by an annual rate of 8.2% in the next five years.

Comparatively, the stock is trading at a forward price to earnings multiple of 17 and it has a forward dividend yield of 1.9%.

At the end of the June quarter, CNR had an operating cash flow balance of \$6.2 billion, while the debt stood at \$13.9 billion. The company dividend payout ratio is 32.8%, providing enough opportunities to increase dividend payments and invest in capital expenditure.

Its return on equity stands (ROE) at 25%, while its return on assets is 9.1% (ROA) in the trailing 12-month period. The stock has a beta of 1.07. Analysts have a 12-month average target price of \$120 for CNR, which is 4.5% higher than the current target price.

The verdict

We can see that CNR is trading at a higher valuation and has higher ROA and ROE metrics over the last 12 months. Enbridge's earnings growth will be accelerating over the next few years, however. Enbridge also has a higher dividend yield with more upside potential given its lower valuation.

Though both these stocks remain solid long-term picks, it appears that Enbridge is a better value buy at the current price.

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2. NYSE:ENB (Enbridge Inc.)
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