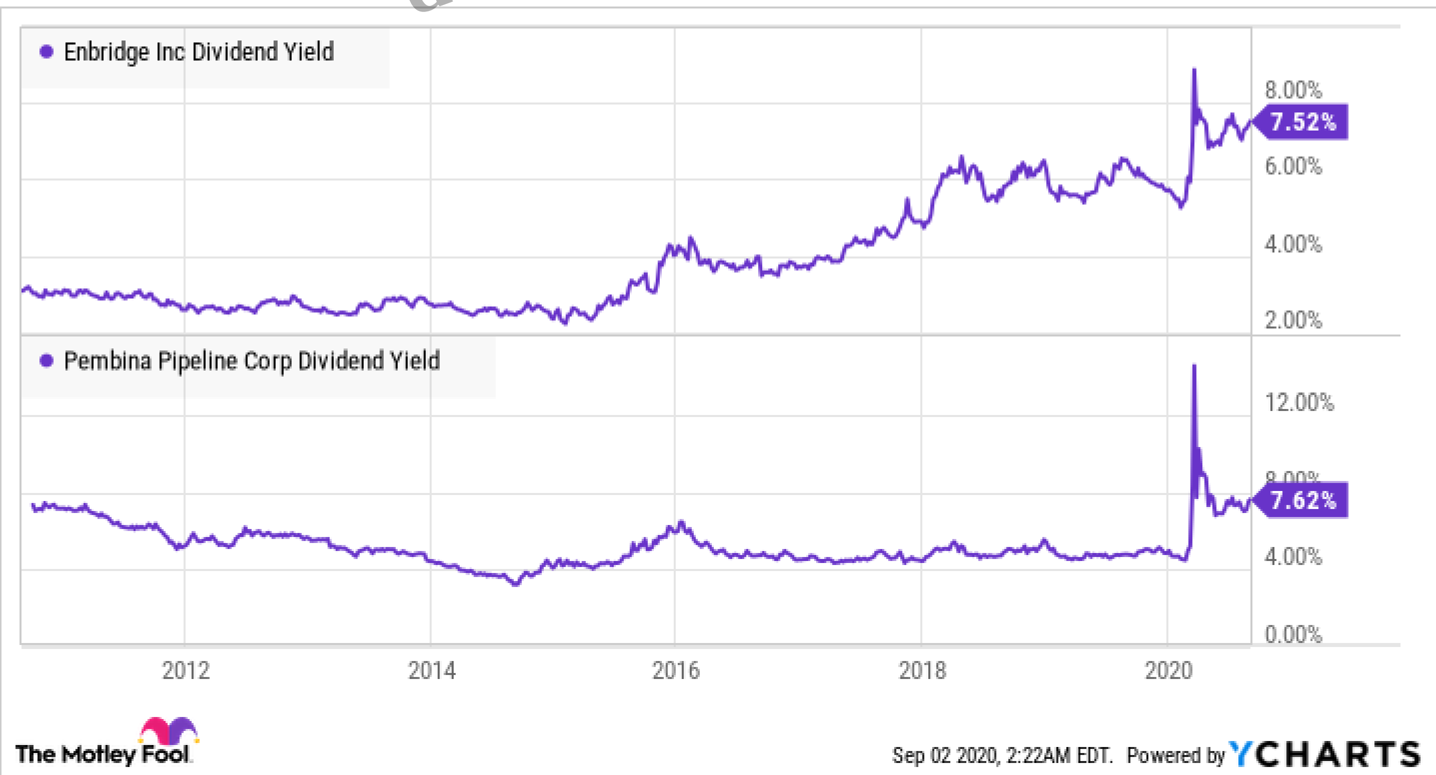
Better Buy: Enbridge (TSX:ENB) Stock or This Other 7.7% Dividend Stock?

Description

It's a difficult operating environment for **Enbridge** (TSX:ENB)(NYSE:ENB) stock and **Pembina Pipeline** (TSX:PPL)(NYSE:PBA), which are in the energy infrastructure industry. Primarily, the headwinds include the COVID-19 pandemic and the decline in global energy prices.

Interestingly, both are Canadian Dividend Aristocrats that offer a dividend yield of 7.7%. Their yield histories suggest that Pembina could be a better buy, as it normally yielded 4-5% in the past five years or so, while Enbridge stock's yield had climbed since 2016.



Dividend Yield data by YCharts.

Let's dig deeper to see which may be a better buy today.

Recent results

Enbridge reported its second-quarter (Q2) results on July 29. In the first half of the year (H1), the North American energy infrastructure leader reported a revenue decline of 7%. Its total volume decreased, but overall, it managed to increase its adjusted EBITDA, a cash flow proxy, marginally by 1% to more than $7 billion.

Pembina Pipeline reported its Q2 results on August 6. In H1, its revenue dropped 22% to $2.9 billion against H1 2019. However, its total volume was up 2% to $3.4 billion, which highlights a highly contracted and resilient business diversified across customers and commodities.

The stable volumes support robust cash flow generation, as approximately 90-95% of its adjusted EBITDA are fee based and relies on volumes.

These translated to adjusted EBITDA growth of 5% to $1.6 billion thanks to operating and administrative cost savings and efficiencies. Management believes that the majority of the savings are sustainable into 2021.

Dividend track record

Enbridge has increased its dividend for 24 consecutive years with a five-year dividend-growth rate of 16%. It aims for cash distribution growth of 5-7%, which can lead to dividend growth of about 3% over the next two years, as its payout ratio is a little higher than what it would like.

Pembina has boosted its dividend for eight consecutive years with a five-year dividend-growth rate of 6.5%. It might opt to freeze its dividend in this challenging operating environment.

Even if both companies deliver slow or no dividend growth over the next two years, they still provide attractive income — a whopping 7.7% yield — for shareholders.

Dividend coverage and financial strength

Enbridge expects its 2020 payout ratio, based on its distributable cash flow, to be approximately 68-72%. Its financial strength is evident in its current and quick ratios, which are the same as they were a year ago. Enbridge is awarded an S&P credit rating of BBB+.

Pembina estimates its payout ratio, based on its fee-based distributable cash flow, will be about 70-75%. Its current and quick ratios have fallen by about 30% from a year ago, but management reassures that it has ample liquidity of $2.8 billion to weather this downturn with only $600 million of debt maturities next year. Pembina has an investment-grade S&P credit rating of BBB.

Upside

According to the average analyst 12-month price target of $52, Enbridge stock has 23% near-term upside potential. The most bearish analyst thinks it has near-term downside risk of more than 12%.

At about $32.50 per share, Pembina stock has 22% near-term upside potential and no near-term downside risk.

The Foolish takeaway

Enbridge stock and Pembina stock move in tandem. So, investors might as well save some fees by only buying shares of one. Enbridge has a larger scale and a stronger financial position. Therefore, if I didn't own any shares, I'd consider buying Enbridge over Pembina today.

Which one will you choose?

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kayng