Enbridge (TSX:ENB) or Pembina Pipeline (TSX:PPL): Which Is a Better Dividend Stock?

Description

The lower crude oil prices and weak demand have weighed heavily on the stock prices of **Enbridge** (TSX:ENB)(NYSE:ENB) and **Pembina Pipeline** (TSX:PPL)(NYSE:PBA). However, the decline in the stock prices has increased their dividend yields to above 8%. In this article, we will look at which among the two companies is a better buy right now.

The case for Enbridge

Enbridge has lost 22% of its stock value this year. The decline in the mainline throughput of its liquids pipelines segment amid lower oil prices has dragged its financials and stock price down. In its recently completed second quarter, its adjusted EPS fell over 16% on a year-over-year basis.

Meanwhile, the higher utilization in its gas pipelines and utility segment, favourable price revision, and assets placed into the service in the last four quarters increased its adjusted EBITDA by 3.2%.

Further, the company is continuing with its $11 billion secured projects, which are at the various stages of execution. The management expects these projects to come to service between 2020 and 2023. Once operational, these projects could contribute $2.5 billion of incremental cash flow for the company.

The company continues to expand its presence in the renewable segment. In the second quarter, the adjusted EBITDA from the renewable power generation segment grew 50% to $150 million. Also, the company expects the construction of its 2.25-megawatt Lambertville Solar Project to be completed later this year.

Meanwhile, earlier this month, Enbridge had announced that it has received all the necessary approvals and will soon restart the eastern segment of its Line 5 in the Straits of Mackinac. So, given its strong growth prospects and contractual arrangements, I believe the company's cash flows to be stable in the years to come.

Since going public in 1953, Enbridge has been rewarding its shareholders with dividends. Meanwhile, the recent decline in the stock price has increased its dividend yield to a juicy 8.1%.

The case for Pembina Pipeline

Pembina Pipeline has lost close to 40% of its stock value this year. During the recently completed second quarter, its top line shrunk by close to 30% due to weak performance from its marketing and new ventures segment. The decline in the energy demand, reduced crude activities, lower frac spreads, and compressed margins dragged the segment's sales down.

However, its base businesses, the majority of which are fee-based contracts, remain resilient. In the second quarter, both the pipelines and facilities segments reported a surge in their volumes and EBITDA.

Further, the company has increased its fee-based contribution to adjusted EBITDA over the years. For this fiscal quarter, the company's management projects the contribution to be between 90% and 95% compared to 77% in 2015. Also, the company has lowered its payout ratio significantly, which is encouraging.

Meanwhile, the company pays dividends monthly. Currently, the company's dividend yield stands at 8.6%. Amid the crisis, the company has announced it will not hike its dividends for the rest of this year. However, the company's dividends are safe, given its resilient base businesses that are immune to commodity price fluctuations.

Bottom line

Although Pembina Pipeline offers a high dividend yield, I believe Enbridge is a better buy, given its strong balance sheet, stable cash flows, and higher growth prospects. Further, Enbridge has hiked its dividends for the past 25 consecutive years. It has also maintained its guidance of increasing its dividends at 5-7% until 2022.

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