TSX Stocks: Bill Gross and Warren Buffett Both Like This 1 Sector for 2021

Description

Despite the pandemic, stock markets fully recovered after the epic crash last year. Even if stocks look well placed for a prolonged rally going into 2021, lingering uncertainties remain and could jeopardize the market's upside movement.

How are savvy investors playing the market rally? Is there any particular area that big investors are betting on?

The bond king Bill Gross recently released his investment outlook for 2021. He thinks natural gas pipeline companies are attractive amid the low interest rates and rising fiscal deficits. Growth stocks will underperform, according to him.

TSX stocks: Natural gas pipeline companies for 2021

The outlook of an American investor indeed makes sense. Natural gas pipeline companies are relatively safe and pay stable dividends. Their yield premium is certainly attractive when interest rates are expected to stay close to zero, at least for the next few years. Additionally, as the prospects for the disliked energy sector improve amid the increasing demand for oil, pipeline companies will likely emerge strongly in 2021.

The legendary investor Warren Buffett is also positive on the energy pipeline companies. He played it extremely safe last year and did not act during the epic selloff in 2020. However, he made way for its bursting cash hoard and invested $8 billion last year in an energy midstream business.

His investment empire **Berkshire Hathaway** announced the completion of **Dominion Energy's** gas transmission and storage business in November last year.

Natural gas is a relatively cheap and clean-burning fuel. Due to its cost advantage, power generation using natural gas has substantially increased in the last few years, briefly surpassing coal.

Traditional electric utilities have notably expanded in the natural gas distribution domain in the last few years, as it is a comparatively high-margin business.

Investors who want to follow Bill Gross and Warren Buffett have a few attractive options among the TSX stocks.

Low-risk energy midstream TSX stocks

Consider **TC Energy** (TSX:TRP)(NYSE:TRP). The company operates 57,900 miles of pipelines and supplies more than 25% of total natural gas consumed daily across North America. It earns fixed fees on long-term contracts and thus has a stable earnings profile. It has returned 12% on average since 2000 and has notably beat broader markets.

TC Energy's asset base has grown from $25 billion to $100 billion in this period. Interestingly, its safe business model enables earnings visibility and dividend stability. TC Energy has increased dividends in the last 20 consecutive years.

For the next few years, the company aims to increase its dividends by 6% compounded annually. The stock yields 6.2%, almost double the TSX average.

An $84 billion **Enbridge** (TSX:ENB)(NYSE:ENB) is the biggest energy midstream company in North America. The stock yields more than 8% and has outperformed TC Energy stock in the last two decades.

Enbridge is a relatively better play among the energy pipeline companies due to its unique pipeline network, scale, and minimal exposure to prices of energy commodities.

Bottom line

As bond investors will receive lower yields amid the low interest rates, they will likely turn to high-yield gas pipeline company stocks. The yield premium and low-risk business model offer quite a lucrative risk/reward proposition for long-term investors.

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