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

Description

Enbridge (TSX:ENB)(NYSE:ENB) and **TC Energy** (TSX:TRP)(NYSE:TRP) are peers in the North American energy infrastructure industry. One is set to benefit, while the other is harmed from the elimination of the Keystone XL project. Let's determine which of the two is a better buy today for income and total returns.

Keystone XL pipeline scrapped

U.S. president Joe Biden just revoked the permit required to build the Keystone XL oil pipeline, which would have helped increase the takeaway capacity from the Canadian oil sands.

The Keystone XL project is almost a third of TC Energy's $37 billion capital plan through 2023, and the company already invested about $2.2 billion. (About $1.4 billion was funded by the Albertan government.) So, the cancellation of the project would be a major blow to TC Energy's growth.

However, it could benefit the two other major pipeline projects that are in the works: Enbridge's Line 3 replacement project and the Canadian government's Trans Mountain pipeline expansion.

Does Enbridge stock or TRP have better growth?

Assuming the Keystone XL pipeline is out of the picture, which dividend stock has better growth? This is important because their growth directly affects their dividend growth.

Even after taking out the Keystone XL, TC Energy still has a bigger capital program than Enbridge. Specifically, TC Energy's 2020-2023 program is now worth about $25 billion versus Enbridge's $16 billion.

Additionally, Enbridge is approximately 1.5 times as large as TC Energy in terms of enterprise value and total assets. So, each dollar of investment will have a bigger impact on TC Energy's bottom line.

Importantly, TC Energy has generated greater returns than Enbridge in the recent past. Specifically, Enbridge's return on assets (ROA) was about 3% from 2016 to 2019, while its last 12-month (LTM) ROA was 3.1%. TC Energy's ROA was 3.3% or higher in the period, while its LTM ROA was 3.6%. Furthermore, TC Energy's return on equity (ROE) in the period averaged 10.3%, which was better than Enbridge's average ROE of nearly 7.4%.

Therefore, I expect TC Energy to experience greater growth than Enbridge through 2023.

Dividend income and growth

Enbridge estimates it will grow its distributable cash flow at a compound annual growth rate of 5-7% through 2023. To pursue an even safer payout ratio, it might continue increasing its dividend by about 3% as it did for Q1 2021.

Despite the setback from Keystone XL, TC Energy management maintained its dividend-growth target of 8-10% in 2021 and 5-7% through 2023. Because of the smaller capital program, it'd be safer to assume dividend growth at the lower end — so 8% this year and 5% through 2023.

At writing, Enbridge stock and TC Energy yield 7.3% and 5.8%, respectively.

Is Enbridge stock or TRP a better value?

The Keystone XL pipeline issue has been known for a while, which is probably why Enbridge stock has performed better (up 28% since the low in November 2020) compared to TC Energy stock that's up only 12%.

As a result, TC Energy is cheaper than Enbridge stock today. In light of the latest development, analysts might lower TRP's near-term price target by a couple of dollars. Even so, at $56 per share, that's still a nice discount of about 15%, while Enbridge is about 12% discounted.

The Foolish takeaway

In conclusion, Enbridge stock offers a bigger dividend yield, because it'll still exhibit slower growth through 2023 versus TC Energy. If both stocks were to trade at fair value a year later, Enbridge and TC Energy would deliver total returns of approximately 24% and 32%, respectively. Consequently, I think TC Energy is a better buy than Enbridge stock today.

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