Enbridge or Pembina Pipeline: Which Is a Better Buy?

Description

Last year was tough for the energy sector amid the decline in energy demand due to the pandemic-infused restrictions. However, the rollout of multiple vaccines has brought much-needed relief to the industry. The improvement in economic activities and investors' hope of life, and businesses returning to pre-pandemic ways have led oil demand to rise, driving midstream energy companies' stock prices. Amid renewed interest, let's see which among **Enbridge** (TSX:ENB)(NYSE:ENB) and **Pembina Pipeline** (TSX:PPL)(NYSE:PBA) is a better buy right now.

Enbridge

Enbridge is a midstream energy company that's also looking at expanding its renewable assets. Amid the weak oil demand last year, its asset utilization had declined, dragging its financials and stock price down. However, amid the expectation of rising oil demand, Enbridge's stock price has increased by 13.6% this year. Despite the rise, the company still trades 10.5% lower than its January 2020 levels.

Meanwhile, Enbridge operates a highly regulated business, with around 98% of its cash flows generated from low-risk take-or-pay, fixed fee, or cost-of-service type of contracts, which provides stability to its financials. Further, the company has put into service $1.6 billion worth of projects in 2020 and early this year. It is also progressing with its $16 billion secured growth projects, supporting its DCF per share growth of 5-7% growth through 2023.

Despite the recent rise, its valuation looks attractive, with its forward price-to-sales and forward price-to-earnings standing at 2.4 and 17, respectively. The company has also rewarded its shareholders by raising its dividends for 26 straight years at a compound annual growth rate (CAGR) of 10%. The company's board has announced a dividend of $3.34 per share for this year, with its forward dividend yield standing at 7.2%.

Analysts also look bullish on Enbridge, with 23 of 27 analysts have given a “buy” rating, while three have issued a “hold” rating, and one analyst has given a “sell” rating. Meanwhile, analysts’ consensus price target stands at $51.36, offering a return potential of 11.1%.

Pembina Pipeline

Pembina Pipeline, which had taken a severe hit last year, has made a strong recovery this year, with its stock price rising close to 22%. The increased oil demand and higher crude oil prices have driven the company’s stock price. However, it still trades over 23% lower from its 2020 January levels, providing an excellent buying opportunity. Its valuation also looks cheap, with its forward price-to-sales and forward price-to-earnings multiples standing at 2.4 and 15.3, respectively.

The company operates a highly contracted business with around 90-95% of its adjusted EBITDA are generated from long-term, fee-based contracts. Further, its integrated business model is well-positioned to benefit from rising oil prices. So, the company’s outlook looks healthy. Further, Pembina Pipeline’s management has planned to invest around $785 million this year, supporting its growth initiatives. The management hopes that the company’s adjusted EBITDA to come in the range of $3.2-$3.4 billion.

Given its healthy growth prospects, steady cash flows, and strong liquidity position, I believe its dividends are safe. Pembina Pipeline pays monthly dividends of $0.21 per share, representing a healthy forward dividend yield of 6.9%. Moving to analysts’ recommendations, 11 of the 20 analysts cover the stock have issued a “buy” rating while the remaining nine have given a “hold” rating. Analysts’ consensus price target stands at $38.98, representing a return potential of 6.3%.

Bottom line

Enbridge could be a good buy for risk-averse investors, given its steady cash flows and a high dividend yield. However, Pembina Pipeline offers higher return prospects, given its cheaper valuation and improving oil prices.

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