Should You Buy TC Energy or Enbridge Stock for Dividend Growth?

Description

TC Energy (TSX:TRP)(NYSE:TRP) and **Enbridge** (TSX:ENB)(NYSE:ENB) are two of Canada's top dividend stocks. Is one undervalued and a better buy today?

TC Energy

TC Energy finally announced the permanent cancellation of its Keystone XL pipeline. President Biden revoked a presidential permit for the development earlier this year. The pipeline would have moved oil from Canada to the United States.

The market anticipated the decision and investors are probably happy the company won't spend more money on the project. Despite the setback, TC Energy still has a robust growth portfolio with $20 billion in secured growth projects and $7 billion under development.

TC Energy is best known for its natural gas transmission, gas storage, and power-generation assets located in Canada, the United States, and Mexico. Natural gas has a bright future in both North America and abroad. The fuel creates lower CO_2 emissions than coal or oil and is viewed as an important alternative to generate power, as the world transitions to renewable energy.

TC Energy expects its cash flow to grow enough to support annual dividend hikes of 5-7% over the medium term. The current distribution provides a yield of 5.4%. Investors who bought the stock at the start of the year are already sitting on some nice gains and more upside could be on the way. TC Energy trades for close to $64 per share at the time of writing compared to $75 before the pandemic.

Enbridge

Enbridge is a giant in the Canadian and U.S. energy infrastructure industry. The company moves 25% of the oil produced in the two countries. Enbridge also has extensive natural gas transmission, gas storage, and natural gas utility businesses, along with a growing renewable energy division.

The oil pipelines saw volumes drop last year, as travel restrictions and work-from-home orders resulted in lower demand for jet fuel and gasoline. Enbridge transports crude oil feedstock from producers to the refineries that make the fuel. As the U.S. and Canada continue to lift COVID-19 restrictions, people will book more flights and start heading back to the office in larger numbers. That should drive a significant rebound in fuel demand and push Enbridge's oil pipeline throughput back to near capacity.

Future growth will likely come from smaller projects across the existing infrastructure, as well as from strategic acquisitions. Enbridge spent the past few years monetizing non-core assets to focus more on regulated businesses. The company also streamlined its corporate structure, making it easier for analysts to put a value on the business. Enbridge's balance sheet is in better shape and the dividend should be safe. The board raised the payout late last year, putting to bed concerns that a cut might be on the way.

Dividend hikes should be in line with growth in distributable cash flow over the next few years. Investors who buy the stock near the current price of $48 per share can pick up a 6.9% dividend yield.

Is one a better bet?

Enbridge and TC Energy are both top dividend stocks for a buy-and-hold portfolio. Income investors searching for a TFSA pick might decide to choose Enbridge for the higher yield. I would probably make TC Energy the first choice for a portfolio focused on dividend growth and total returns.

Otherwise, it wouldn't be a bad idea to split a new investment between the two stocks today.

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