Should You Buy Enbridge Stock or Pembina Pipeline Stock for Passive Income?

Description

Pipeline stocks fell along with oil and natural gas producers in the past few months, but the pullback looks overdone, and investors searching for passive income are wondering which energy infrastructure stocks are good to buy today.

Enbridge

Enbridge (TSX:ENB) trades near $52 per share at the time of writing and offers investors a 6.6% dividend yield. The stock was as high as $59 a few months ago, so there is decent upside potential once the market rebounds.

Enbridge is working through a $13 billion capital program that should boost revenue and distributable cash flow in the next few years. The board raised the payout by 3% for 2022 and has given investors a raise in each of the past 27 years. Another hike of 3-5% is likely on the way for 2023.

Enbridge knows that growth has to come from different sources than in the past. This is why the company spent US$3 billion to buy an oil export terminal in Texas last year and recently announced an agreement to take a 30% stake in the $5.1 billion Woodfibre liquified natural gas (LNG) facility being built in British Columbia. Exports of oil and LNG from Canada and the United States to international buyers are expected to increase, as countries look for reliable supplies.

Pembina Pipeline

Pembina Pipeline (TSX:PPL) just raised its dividend and now provides a 6% dividend yield. The company has grown steadily over the past 65 years through strategic acquisitions and development projects. Management isn't afraid to be aggressive when opportunities arise, and the strategy has largely paid off over the years.

Pembina Pipeline offers oil and gas producers a wide range of midstream services. The company has liquids and natural gas pipelines, gas-gathering and gas-processing facilities, logistics operations, and even a propane export terminal.

Looking ahead, the company is evaluating LNG and carbon-capture opportunities. As the oil and natural gas rebound stabilizes, Pembina Pipeline should benefit from increased producer output as energy companies slowly allocate more capital to boost supply to meet growing domestic and international demand.

Pembina Pipeline stock trades for less than $44 per share at the time of writing compared to $53 in June. The pullback looks overdone, and investors can now get a great dividend yield.

Is one a better bet?

The energy infrastructure sector looks undervalued. These companies are not oil and gas producers; they simply serve as the middlemen in getting the commodities from the production sites to the market. As such, the changes in oil and natural gas prices have a small direct impact on revenue.

Enbridge is a much larger company and currently offers a better yield. Pembina Pipeline likely has more upside potential on a rebound and could become a takeover target for a larger peer or an alternative asset manager searching for attractive and reliable cash flow.

I would probably split a new investment between the two stocks today. If you only buy one, Enbridge is the way to go for a Tax-Free Savings Account specifically focused on high-yield passive income.

CATEGORY

1. Energy Stocks
2. Investing

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2. NYSE:PBA (Pembina Pipeline Corporation)
3. TSX:ENB (Enbridge Inc.)
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