Better Dividend Buy: Algonquin Power Stock or Enbridge?

Description

Two Canadian dividend stocks with elevated yields today are **Algonquin Power and Utilities** (TSX:AQN) and **Enbridge** (TSX:ENB).

After falling 18% this year, Algonquin Power is trading with a huge 6.7% dividend yield. Enbridge stock is actually up 7% this year, but it still trades with an elevated 6.5% dividend.

So, which is a better buy today? They both have different businesses and different elements of risk vs. reward. Below, we'll discuss these differences and why individual investors might prefer one over the other.

Enbridge: A stable stock with a high dividend

With a price of $53 per share, Enbridge has a market cap of $107 billion. It is an energy infrastructure leader in North America. It operates liquids pipelines, natural gas utilities, energy storage and export terminals, and renewable power projects. In fact, it has over 40 different businesses under its umbrella.

For the past five years, Enbridge has grown earnings before interest, taxes, depreciation, and amortization (EBITDA) by a compound rate of 8.2%. Likewise, it has compounded its annual dividend rate by 7% annually. Keep in mind, recent dividend hikes have been in the 3% range. It trades for an enterprise value-to-EBITDA (EV/EBITDA) ratio of 12 right now. EBITDA stands for earnings before interest, taxes, depreciation, and amortization.

Enbridge's net debt-to-EBITDA ratio sits at 6.5 today. However, it expects to sit closer to 4.7 times at the end of the year. Enbridge has a $13 billion secured growth plan that should help push 5-7% annual distributable cash flow growth to the end of 2024. That should mean further dividend growth and modest stock appreciation to come.

Algonquin Power: Higher growth but more risk

Algonquin Power trades for $14.87 per share and has a market cap of $10 billion. It is significantly smaller than Enbridge. However, it also has a diversified asset mix. It operates a mix of water, gas, and electric utilities across North America. This makes up 70% of its revenues.

The remainder comes from a growing renewable power development business. The mix of stable utilities and growing renewables makes for an attractive mix of stability and growth.

For the past five years, it has grown EBITDA by a 13% compounded annual rate. It has grown its dividend rate by 8.8% annually. It trades with an EV/EBITDA of 11.2.

Algonquin's net debt-to-EBITDA is very high at 8.5 times. This is largely because of the large amount of debt it issued to fund the acquisition of Kentucky Power, which has yet to complete. This is something to monitor. Algonquin has a $12 billion capital plan, which it hopes to grow earnings and dividends annually by the high single digits.

Which +6% dividend stock is better?

Enbridge is likely the safe bet between these two. Its net debt is coming down, and its business delivers pretty consistent cash flows that protect the dividend. Even though its business has limited energy pricing risk, its stock tends to fluctuate with sentiment related to oil markets. That is always a risk with this stock.

On the flip side, Algonquin stock is growing both earnings and its dividend much faster. It is also slightly cheaper. However, it has both higher financial (lots of debt) and execution risk (i.e., can it complete the Kentucky deal?) that shareholders need to factor in.

Both these stocks pay attractive +6% dividend yields. Ultimately, it comes down to how much risk vs. reward an investor wants to take on by buying one over the other.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:ENB (Enbridge Inc.)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:ENB (Enbridge Inc.)

PARTNER-FEEDS

1. Business Insider
2. Flipboard
3. Koyfin
4. Msn
5. Newscred

6. Quote Media
7. Sharewise
8. Smart News
9. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. robbybrown

Category

1. Dividend Stocks
2. Investing

Date
2025/07/21
Date Created
2022/10/28
Author
robbybrown