Better Buy: Enbridge Stock vs. Pembina Pipeline

Description

Energy infrastructure stocks are down from their 2022 highs, despite strong demand for their services. Investors seeking high-yield passive income for a Tax-Free Savings Account (TFSA) or reliable dividends and total returns in a self-directed Registered Retirement Savings Plan (RRSP) are wondering which pipeline stocks are good to buy right now.

Enbridge

Enbridge (TSX:ENB) is a giant in energy infrastructure industry with oil pipelines, natural gas pipelines, and natural gas utilities. The company also has renewable energy assets that include solar, wind, and geothermal facilities. In addition, Enbridge is expanding its export business while also exploring hydrogen and carbon-capture opportunities.

Recent investments include the purchase of an oil export terminal in Texas, a 30% position in a liquified natural gas (LNG) project in British Columbia, and the acquisition of a solar and wind project developer in the United States.

Enbridge has a $17 billion capital program on the go to drive revenue growth, and investors could see additional strategic acquisitions emerge in the next few years. The company has a current market capitalization of $109 billion. This gives Enbridge strong financial clout to do large deals.

Enbridge reported solid third-quarter results and is on track to hit its full-year guidance. Management has raised the dividend in each of the past 27 years, and investors should see steady payout growth continue in the 3-5% range. At the current share price near $54, the stock offers a 6.4% dividend yield.

Pembina Pipeline

Pembina Pipeline (TSX:PPL) primarily offers a wide range of midstream services to Canadian oil and gas producers. The segments include pipelines, logistics, gas gathering and processing, as well as propane export facilities. Pembina Pipeline is evaluating LNG and carbon-capture opportunities and has a long track record of making aggressive acquisitions.

The board recently raised the dividend. Pembina Pipeline currently pays its distribution monthly, which, historically, made the stock attractive to buy for retirees and other investors who want to get steady income throughout the year. In the third-quarter report, however, the company said it will shift to quarterly payments beginning in 2023.

The business performed well in the third quarter, and management increased the financial guidance for the year. Pembina Pipeline also said it is on track to hit its target of $350 million in share buybacks by the end of 2022.

Pembina Pipeline has a market capitalization of $25 billion. This is large enough to make strategic purchases, as the energy infrastructure sector consolidates. It is also small enough to potentially become a takeover target from a much larger player in the industry, or even from alternative assets managers seeking strong businesses with attractive cash flow.

Pembina Pipeline trades near $45.50 at the time of writing compared to $53 earlier this year. Investors who buy the stock at the current price can get a 5.7% dividend yield.

Is one a better bet?

Investors might want to split a new investment between the two stocks. Enbridge offers a better yield for investors seeking passive income. Pembina Pipeline provides an attractive distribution, and investors could potentially see a nice takeover premium emerge if the company eventually becomes a takeover target.

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