Better Deal: Enbridge Stock or Pembina Pipeline?

Description

Enbridge (TSX:ENB) and **Pembina Pipeline** (TSX:PPL) are two of Canada's top energy infrastructure stocks. Energy infrastructure is an intriguing segment of the market, especially for income investors.

These stocks have significantly lower risk than their oil and gas peers. Certainly, they often trade along with oil prices, but generally they are much less volatile. So, which is a better stock to buy today?

What's the deal with Enbridge stock?

Enbridge is the bigger company of these two. With a market cap of $112 billion, it is one of the largest energy infrastructure stocks in North America. It operates everything from oil and gas pipelines to gas utilities, renewable power projects, and energy export terminals. It is so diversified that it has over 40 different sources of cash flow in its portfolio.

Enbridge stock is up 13.2% in 2022. Year to date, it has delivered solid results. Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization), adjusted earnings per share, and distributable earnings are up 13%, 5.8%, and 10%, respectively. Today, this stock pays an attractive 6.15% dividend yield.

Enbridge has a large growth program with $17 billion earmarked for capital expenditures. It believes this could help distributable cash flows to grow by 5-7% annually for the coming two years. Enbridge has great 27-year track record of growing its dividend annually.

Enbridge trades with an enterprise value-to-EBITDA (EV/EBITDA) ratio of 16 times and a price-to-earnings (P/E) ratio of 20.6. I would put this stock closer to fair value than cheap. However, given that it expects $3.8 billion of projects to enter service by the end of 2022, it should see a nice earnings boost, as it realizes cash flows from these businesses.

Is Pembina Pipeline stock a better buy?

Pembina Pipeline is a smaller energy infrastructure business with a larger focus on the Canadian oil patch. With a market cap of only $26 billion, it is less than a quarter the size of Enbridge stock. Pembina provides services across the energy value chain including pipelines, storage, processing, midstream, and export facilities.

Pembina's stock has outperformed Enbridge with a 20% return this year. It also has delivered strong results so far this year. Adjusted EBITDA, adjusted earnings per share, and adjusted cash flow from operations per unit were up 15%, 147%, and 2%, respectively. Today, Pembina stock yields a 5.5% dividend. It just increased its dividend 3.6% last quarter.

Pembina's growth outlook is positive but not as clear. It has several opportunities to grow in its newly created midstream joint venture. Longer-term growth could come from future LNG export developments, pipeline acquisitions/developments, and investments in the carbon value chain.

Today, Pembina stock trades with an EV/EBITDA ratio of 13 and a P/E ratio of 10. It trades at a substantial discount to Enbridge stock. Given its smaller size and great exposure to energy pricing, it does have some higher risks than Enbridge. However, it also has large opportunities to grow faster than Enbridge. It has less debt than Enbridge, so it may have more flexibility to execute its growth program over the longer term.

The takeaway

Enbridge is a bigger and more diversified stock. It also pays an elevated dividend. However, that comes at a higher valuation to buy it. On the flip side, Pembina is a cheaper stock and has more leverage to grow from here. It is slightly riskier, but overall, its business is quite resilient. While it is a bit of a draw, my bet is with Pembina Pipeline if you are looking for more than just dividend income next year.

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