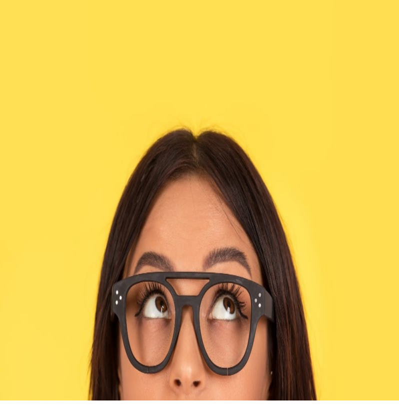

Better Dividend Buy: Enbridge Stock or Brookfield Infrastructure?

Description

Enbridge (TSX:ENB) and **Brookfield Infrastructure Partners** (TSX:BIP.UN) stocks are big hitters when it comes to infrastructure in Canada. These stocks are attractive, because they pay substantial dividend yields that are largely protected by defensive business models.

These businesses have intriguing assets, but there are different reasons why you would want to own and hold them in your portfolio. Let's dig into which stock is a better buy today.

Enbridge stock

With a market cap of $104 billion, Enbridge is, by far, the largest infrastructure stock in Canada. It operates a North America-wide network of core businesses that include gas distribution, gas transmission, oil liquids pipelines, and renewable power. 95% of these assets are contracted or regulated, so its businesses produce a predictable stream of earnings.

Over the past 10 years, Enbridge has only delivered a 26.5% stock return. That is a meagre 2.4% compounded annual return. Add in its dividend, and its 10-year total return is closer to 94.7%, or 6.8% annualized.

Enbridge pays a 6.7% dividend today. It has grown that dividend for 27 consecutive years. However, annual dividend growth has slowed to the 3-5% annual range.

While Enbridge is a solid dividend stock that generates a nice yield, there is not much growth within its business. With an enterprise value to earnings before interest, tax, depreciation, and amortization (EV/EBITDA) ratio of 16, it trades at a premium valuation to its peers.

Given the elevated valuation, one worries that there may be limited near-term upside. As a result, investors should buy Enbridge stock largely as a way to preserve capital over the long term and collect an outsized stream of dividends.

Brookfield Infrastructure Partners

Brookfield Infrastructure Partners (TSX:BIP.UN) is a bit more widely diversified than Enbridge. However, it is significantly smaller with a market cap of only $23.5 billion.

Its portfolio of businesses operates across sectors like energy infrastructure, transportation, utilities, and data storage/cellular towers. Its diversified business is less dependent on the cyclical energy industry, so it has a natural operational hedge.

Over 90% of its revenues are contracted/regulated, and 70% of earnings are indexed to inflation. This has helped BIP stock earn a 241% stock return over the past 10 years (or 13% compounded annually). Add in dividends, and its total return increases to 263%, or 13.7% compounded over that time.

BIP stock trades with a 4.4% dividend yield. However, BIP has grown its dividend every year since 2009. It continues to have a target of 6-9% annual dividend growth ahead.

With an EV/EBITDA ratio of 11.8, BIP is trading at the very low end of its long-term valuation range. It is significantly cheaper than Enbridge stock, especially given that it is expected to grow by the high single digits for several years to come.

The Foolish takeaway

Given its broadly diverse business, lower valuation, and high single-digit earnings and dividend-growth potential, Brookfield Infrastructure appears to be the better buy today. Brookfield is smaller, so any big acquisition or major capital project could have a higher impact on earnings.

Enbridge stock is okay if you just want dividend income, but Brookfield can likely provide higher overall returns over the longer term. For these reasons, Brookfield Infrastructure may be the superior infrastructure stock to consider owning right now.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:BIP.UN (Brookfield Infrastructure Partners L.P.)
2. TSX:ENB (Enbridge Inc.)

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