Better Buy: Fortis Stock vs Enbridge

Description

Fortis (TSX:FTS) and **Enbridge** (TSX:ENB) are two very popular dividend stocks in Canada. Both pay attractive dividend yields. However, they have different levels or risk and reward that investors need to factor in. If you are looking for a quality dividend stock but wondering which one to buy, here is a breakdown of each.

Fortis stock: A model of consistency

With a stock price of $54.60, Fortis has a market capitalization of $26 billion. It operates 10 regulated transmission and distribution utility businesses across Canada, the U.S., and the Caribbean. 99% of its revenues are from regulated operations, so it captures a predictable baseline of earnings.

Generally, Fortis business is pretty boring. However, consistency is key in the utility industry, and Fortis has delivered that.

Over the past 10 years, it has grown earnings per share (EPS) by a steady 5% compound annual growth rate. In 2022, it will likely grow earning per share by 6.5%. Its stock has basically mirrored its earnings-per-share growth with an average 4.8% compounded annual stock return for the decade.

If you consider dividends, it is hard to find a better stock. Fortis has grown its dividend consecutively for 49 years. Right now, its dividend-payout ratio sits at 78%, which indicates its sustainability.

Fortis has a $22.3 billion capital that it anticipates will grow its rate base by a compounded 6.2% annual rate to 2027. Given its anticipated growth, it continues to expect 4-6% annual dividend growth for the near future.

Enbridge: Bigger dividend but more volatile and higher risk

Enbridge is significantly larger and more diversified than Fortis stock. With a price of $54.28, it has a market cap of $109 billion. It operates some of the most significant oil and gas pipelines across North

America. For context, 30% of the oil produced in North America is transported through Enbridge's system.

It also has natural gas utilities, storage facilities, LNG export terminals, and renewable power projects. These diversified operations certainly help to spread out its risk. However, Enbridge's business is commodity-centric, which means it tends to trade in lockstep with global energy sentiment. Its stock has historically been more volatile than Fortis stock.

Enbridge has grown earnings per share by a 6.1% compound annual growth rate over the past 10 years. However, its earnings have fluctuated more than Fortis's along the way.

In 2022, it should grow earnings by about 7% to $2.94 per share. Its stock has underperformed its earnings-per-share growth. Enbridge stock has only delivered a 2.2% annualized stock return over the past 10 years.

Enbridge has a $9 billion capital plan. It hopes to accrete 5-7% annual cash flow growth over the next few years. Its dividend, however, is only expected to grow by the low single digits. Right now, it has an earnings-payout ratio of 117%, which suggests it is paying out more dividends than income it is earning.

Fortis stock or Enbridge? What's a better buy?

Fortis stock earns a 4.13% dividend yield. Enbridge earns 6.5% dividend yield. While Enbridge has a more attractive dividend, investors do need to be a little bit cautious.

Over the years, it has issued debt to cover its earnings shortfall to pay its outsized dividend. While this has worked in a low interest rate environment, more expensive debt could restrict its ability to raise capital (and raise its dividend).

Fortis has been very prudent and disciplined about how it manages its cash flows and dividends. Given this, Fortis is likely the better pick for stable safe income. On the flip side, Enbridge might be the stock for a bigger dividend, but you have to accept a higher level of business and financial risk.

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Author
robbybrown