Should You Put Royal Bank of Canada or Enbridge Inc. in Your TFSA?

Description

Canadian investors are looking for top picks to add to their TFSA holdings.

Let's take a look at **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see if one is a better bet right now.

Royal Bank

Royal Bank is one massive profit machine. The company pulled in just under $10 billion in earnings last year, and the good times continue despite some economic headwinds.

The company's diversified revenue stream is a big reason for the solid results. Royal Bank has a strong Canadian retail business, but it also relies heavily on capital markets, insurance, and wealth management to drive earnings. The balance is important because a difficult quarter in one segment is often offset by strength in another division.

Investors should also see decent numbers out of the U.S. in the next few years. Royal Bank recently closed its purchase of California-based City National Corporation, a commercial and private banking firm that caters to high-end clients. The deal was hefty at US$5 billion, but it gives Royal Bank a great platform to expand its reach into the attractive U.S. market.

The investment community is somewhat concerned about energy and housing threats to the Canadian banks. Royal Bank has increased its loss provisions for energy clients, but the company's total oil and gas direct exposure is less than 2% of the overall loan book.

On the housing side, Royal Bank's Canadian mortgage portfolio is unlikely to see any material losses. Uninsured mortgages represent 54% of the portfolio, and the loan-to-value ratio on those loans is a reasonable 55%.

Royal Bank recently increased its dividend by 3% to $0.81 per share, which is good for a 4.2% yield.

Enbridge

Enbridge sold off last year as investors exited any name connected to the energy industry.

The company relies on energy investment to boost demand for new pipeline infrastructure, so a long-term slowdown in the oil and gas sector would impact growth. Nonetheless, the pullback in the stock looks overdone.

Enbridge is essentially a tollbooth. The company transports oil, natural gas, and natural gas liquids from producers to the end users. In return it charges a fee for providing the service. For the most part, the big concern is throughput rather than the price of the commodity. In fact, changes in oil and gas prices directly impact less than 5% of Enbridge’s revenue.

Enbridge will put $18 billion in new infrastructure projects into service over the next three years. That should provide a nice boost to revenue and cash flow and sustain strong dividend growth of 8-10% per year. Enbridge currently offers a dividend yield of 4%.

As long as the oil and gas industry starts to recover in the medium term, solid demand for new pipelines should resume. If not, Enbridge can always go the acquisition route to drive growth.

Which one should you buy?

If you have enough room in your TFSA, both stocks should be great long-term picks. At the moment, Enbridge looks like a better deal because it hasn’t fully recovered all of the losses from the 2015 rout. If you only have the cash to pick one, I would go with the pipeline operator.

CATEGORY

1. Bank Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:ENB (Enbridge Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:ENB (Enbridge Inc.)
4. TSX:RY (Royal Bank of Canada)

Category

1. Bank Stocks
2. Energy Stocks
3. Investing

Date
2025/09/22
Date Created
2016/04/18
Author

aswalker