TFSA Income Investors: Should You Buy RioCan Real Estate Investment Trust or Enbridge Inc.?

Description

Canadians retirees are searching for ways to get the most out of their savings, and using the TFSA to hold income stocks is one popular strategy.

Why?

All distributions paid inside the TFSA are kept out of the hands of the taxman. This is appealing for all investors, but it can really make a difference for pensioners who rely on dividend stocks and REITs for additional income.

Let's take a look a **RioCan Real Estate Investment Trust** (TSX:REI.UN) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see if one is a better bet today.

RioCan

RioCan's unit price is down 18% in the past year amid investor concerns about higher interest rates and the struggles faced by some segments of the retail sector.

Higher rates are negative for REITs, which tend to carry a lot of debt. As the cost of borrowing rises, REITs can see their profits shrink unless they offset the rising borrowing costs with additional revenue.

RioCan took measures to reduce the debt load last year through the sale of its U.S. properties. The company used some of the proceeds to bring the debt-to-total assets ratio down to 40.5% at the end of Q1 2017 as compared to 45.4% in 2016.

On the tenant side, a number of high-profile bankruptcy filings in the department store segment are sending investors running for the exits.

It's true this group is under pressure, but RioCan's tenant base is very diverse with no client representing more than 5% of the total revenue.

In addition, the company's largest tenants tend to be suppliers of goods and services that most people go to the store to buy. This includes groceries, household items, and discount goods.

Regarding growth, RioCan has a number of projects underway, including a plan to build up to 10,000 residential units at its top locations. If the concept takes off, investors could see a nice revenue boost in the coming years.

RioCan's monthly payout currently provides a yield of 5.8%.

Enbridge

Enbridge recently closed its $37 billion purchase of Spectra Energy in a deal that created North America’s largest energy infrastructure company.

Spectra added significant gas assets to complement Enbridge’s heavy focus on liquids pipelines and renewable energy as well as a portfolio of development projects.

The growth program includes $27 billion in commercially secured capital projects that should provide enough cash flow growth to support annual dividend hikes of at least 10% through 2024.

The dividend already yields 4.8%, so investors who buy today are looking at some decent returns in the coming years.

Is one more attractive?

RioCan’s payout should be safe, but there might not be much in the way of increases in the near term. Enbridge provides a lower yield today, but probably offers better distribution growth in the coming years. As such, I would make the pipeline giant the first pick.

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aswalker