Better Buy for Your TFSA: Enbridge Inc. or Fortis Inc.?

Description

If you are an investor using your Tax-Free Saving Account (TFSA) to build income for retirement, then having some quality dividend-paying companies in your portfolio should be one of the main pillars of your strategy.

History has shown us that utility stocks have been the best dividend payers because of their predictable revenue streams.

In North America, they operate in a regulated environment where governments fix the rates. So, unlike many consumer-facing businesses, they're not affected by the whims of economic cycles and extreme changes in consumer demand. This predictability in cash flows helps them pay very stable dividends to investors.

Let us find out if **Fortis Inc.** (TSX:FTS)(NYSE:FTS) or **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) is a better option for your TFSA.

Fortis

St. John's-based Fortis has $48 billion in assets with good geographical diversification. The company provides electricity and gas to 3.2 million customers in the U.S., Canada, and Caribbean countries. The U.S. accounts for more than 60% of its assets, while Canada has more than 25%, and the rest are in the Caribbean.

While picking a dividend stock, one important consideration should be how often you are going to get a raise in your income. More dividends mean you'll be able to re-invest to buy more shares and multiply your wealth quickly.

Fortis's latest earnings show that it is well on track to grow its profit after smart acquisitions in the U.S. Its sales jumped 24% in third quarter to $1.9 billion, while earnings per share surged to $0.66 from $0.45 a share in the same period a year ago.

With a dividend yield of 3.53%, and about 6% expected growth in its annual dividend payouts through 2021, Fortis stock is a solid addition in your TFSA portfolio.

With growing dividends, you also need stability in your return. Fortis has done a good job returning cash to its investors. The company has increased its dividend payout for 43 consecutive years.

Enbridge

Enbridge is another strong candidate for your long-term income portfolio. The Toronto-based utility operates the world's longest crude oil and liquids transportation system, which insulates it from the cyclical nature of commodity markets.

The company is a leader in gathering, transportation, processing, and storage of natural gas in North America, serving about 3.5 million retail customers in Ontario, Quebec, New Brunswick and New York State.

Like Fortis, Enbridge has also grown through acquisition south of the border. Its acquisition of Spectra Energy for $37 billion acquisition last year has positioned the company to accelerate its dividend growth.

Enbridge's stock is currently yielding 5.22%, which is much higher than its average five-year yield of about 3% and the industry average of 2.75%. During the past five years, its dividend payout has grown ~17% against the industry average of 13%.

The company plans to continue with this growth trend by increasing its dividend payout 10-12% each year through 2024, as it produces more cash from some big-ticket infrastructure projects following its acquisition of Spectra Energy.

Which one is better?

Enbridge stock is currently under pressure, as it struggles to increase its gas output and integrate its operations with Spectra after the merger. But this weakness is short term and provides investors a good entry point to lock in more than 5% yield from this top North American utility.

Having said that, I would prefer dividing investment dollars equally between Fortis and Enbridge and keep both of these dividend payers in my portfolio.

CATEGORY

1. Dividend Stocks
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2. NYSE:FTS (Fortis Inc.)
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Date
2025/08/14
Date Created
2017/11/12
Author
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