Enbridge Inc. vs. Toronto-Dominion Bank: Which Stock Is a Better Buy for a TFSA?

Description

Canadian banks and utilities are best known for their rock-solid dividends. Investors prefer these companies due to their stable financial health and their ability to deliver growing incomes.

But 2018 has brought a different environment for bank and utility stocks. While a strengthening economy and rising interest rates are good for the banking stocks, these positive developments pose some challenges for the gas and power utilities and pipeline operators.

With this theme in mind, let's find out if **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) or **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) are good buys in 2018 for your Tax-Free Saving Account (TFSA).

Enbridge

The outlook for the largest pipeline operator isn't very bright in 2018. The biggest contributor in Enbridge stock's dismal performance has been the rising interest rates in Canada. A higher borrowing cost diminishes the investment appeal of bond-like utilities when compared to fixed-income investments.

The Bank of Canada's bullish stance on interest rates has boosted the bond yields, and expectations are that the central bank will raise the borrowing cost again in 2018 after its three hikes since last summer.

In this environment, Enbridge is struggling to cut its debt level, which is key for the management to maintain the company's A-rated credit profile. DBRS Ltd., a credit-rating agency, estimates that Enbridge's consolidated debt, including its subsidiaries, is about $63 billion, which the company targets to reduce by $4 billion in coming years.

Enbridge's stock is down more than 3% in 2018, following its 14% plunge last year. But despite these negative developments, the company remains one of the best dividend stocks for long-term investors.

Trading at $48.83, Enbridge's annual dividend yield has reached a highly attractive 4.9% level. The company pays the quarterly dividend of $0.671. This translates into $2.684 per share on an annualized basis. Over the past 20 years, the dividend has grown at an average compound annual growth rate of 11.7%.

TD Bank

TD Bank is on different trajectory. There is no threat on the horizon for this top banking stock in Canada. The lender is well positioned to benefit from the nation’s robust economy, rising interest rates, and the bank’s growing presence in the U.S.

Through its aggressive organic growth, TD is now among the 10 largest banks in the U.S. when it comes to retail branch network. These positive catalysts have been helping its stock outperform other players. After surging more than 10% in the past year, TD stock is set to show a strong performance this year as well.

Trading at $74.17, TD stock offers a 3.22% annual dividend yield. It pays $0.6 a share quarterly dividend, which has registered a compound annual growth rate of about 10% during the past two decades.

TD’s 13.54 price-to-earnings multiple shows that it’s one of the most expensive banking stocks among its peers, but it’s a low-risk and stable income provider for your TFSA.

Which stock is a better buy?

If you go by the yield, then Enbridge’s 4.92% seems very attractive option. But I see a little more downside for the stock in the coming months before it stages a rebound.

Having said that, I don’t see any long-term threat to Enbridge investors due to the company’s leading position in the energy infrastructure business and its robust growth plans. I would equally divide my investment between the two stocks to earn growing dividend income in the future.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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1. NYSE:ENB (Enbridge Inc.)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:ENB (Enbridge Inc.)
4. TSX:TD (The Toronto-Dominion Bank)

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