Income Investors: Should You Buy Enbridge Inc. or BCE Inc. Right Now?

Description

Retirees and other Canadian income investors are looking at the downturn in the country's blue-chip dividend stocks and wondering which names might be attractive picks today.

Let's take a look at **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) and **BCE Inc.** (TSX:BCE)(NYSE:BCE) to see if one deserves to be in your portfolio.

Enbridge

Enbridge was a $55 stock a year ago. Today, investors can pick it up for about $41.50.

That's a big pullback for a company that is widely regarded as one of Canada's dividend aristocrats with a long track record of both dividend growth and capital appreciation.

What's going on?

Rising interest rates are being blamed for part of the downturn, as investors exit pipeline and utility stocks that served as hiding places for yield-seeking cash in recent years. One theory suggests conservative investors will dump their dividend stocks and move the money into fixed-income alternatives as rates move higher. The extended pullback in Enbridge in recent months might be due more to the anticipation of that move, rather than the actual shift itself.

Investors could also be looking beyond Enbridge's current near-term development portfolio and wondering where the company will find opportunities for additional growth. Mega-pipeline projects are a tough sell these days.

On the positive side, bulls are looking at the $22 billion in near-term projects and thinking that's pretty good. Enbridge has stated it expects cash flow to improve enough over 2019 and 2020 to support dividend growth of at least 10% per year. The company recently raised the payout by 10% for 2018, and that followed a 15% hike last year.

At the time of writing, the stock provides a yield of 6.6%.

BCE

BCE has also come under pressure amid concerns over rising interest rates. At the time of writing, the stock trades for about $56.50, down from close to $63 in December 2017.

BCE completed two acquisitions and launched a new business in the past year. The takeover of Manitoba Telecom Services bumped BCE into the top spot in the Manitoba market and gave the telecom giant a solid base in central Canada.

In addition, BCE bought home-security company AlarmForce. The deal closed in January and provided BCE with another suite of products to offer its large base of residential customers.

Finally, BCE launched its new low-cost prepaid phone service Lucky Mobile late last year.

All three additions should help boost revenue and cash flow in 2018 and beyond.

BCE generates adequate free cash flow to support its dividend, and while rising borrowing costs could cut into the funds that are available for distributions, BCE is big enough it can raise prices when it needs a few extra bucks.

The current payout provides a yield of 5.3%.

Is one a better bet?

Both stocks should be solid buy-and-hold picks for an income-focused portfolio. At this point, Enbridge is starting to look oversold and likely offers better dividend growth over the near term. If you only choose one, I would probably make the energy infrastructure giant the first choice right now.

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