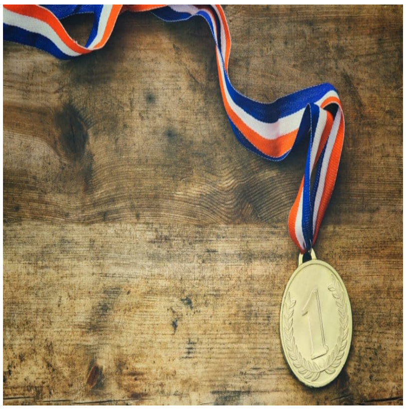

Which Is Better for Top Dividends: Energy Stocks or REITs?

Description

Energy and real estate have long been a source of reliable passive income. Risk-averse investors who prefer to buy and hold for the long term and get in low and sell high look to these two sectors for regular payouts. Dividend stocks are great for bulking out your TFSAs and RRSPs, and if you get the right ones, then you could be well on the way to setting yourself up with a nice nest egg or a more comfortable retirement.

Here are three of the best dividend stocks that money can buy. You'll find two picks from the energy industry and an REIT that pays a large dividend. But which of these three should you buy? Let's take a look at some indicators of quality and value to see whether any of them is a buy.

H&R REIT (TSX:HR.UN)

If you're looking for REITs that pay good dividends, then H&R REIT might be just your cup of tea. It's great value at the moment and is currently changing hands with a 36% discount off its future cash flow value. Looking at its data, we can see a P/E of 10.1 times earnings and a P/B of 0.8 times book.

But is that low P/E ratio a red flag? It seems a little too low; and a wayward PEG ratio doesn't bode well, either. Moving on, we can see the cause of the problem: an 81% expected contraction in earnings over the next one to three years. A low return on equity of 8% last year doesn't do much to raise the quality of this stock, though a dividend yield of 6.86% is tempting.

With a debt level of 91.6%, H&R REIT follows the current trend for REITs to hold close to 100% of their net worth in debt. Ideally, you want a REIT that holds very low debt, with the common-sense solution when faced with risky trusts being to pass on all of them, alluring as their juicy dividends may be.

Enbridge Income Fund Holdings (TSX:ENF)

Trading at a huge discount of more than 80% of its future cash flow value, this stock is an absolute steal at the moment. In terms of a P/B ratio, Enbridge Income Fund Holdings is trading at book price today, which is an encouraging start. A P/E of 5.2 times earnings seems worryingly low, though: a 15.3% expected contraction in earnings over the next one to three years means that this is definitely not a stock for growth investors.

However, there are three very good indicators that this is a high-quality stock. A return on equity of 19% last year shows that shareholders' funds are being made good use of, while a large dividend yield of 6.88% and a balance sheet displaying no debt are good signs.

The bottom line

There may be better energy stocks out there, and likewise better REITs, than the picks above. Is one area better than another for dividends? Energy is the more defensive play, making it a less-risky choice for dividend investors. Looking at debt held by REITs is a good way to ascertain whether or not to buy, while earnings forecasts are a good indicator for energy stocks.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. TSX:HR.UN (H&R Real Estate Investment Trust)

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