TFSA Investors: Should You Buy Enbridge Inc. (TSX:ENB) or Royal Bank of Canada (TSX:RY) Stock?

Description

The pullback in the broader equity market is giving investors an opportunity to buy some of Canada's top companies at discounted prices.

This is great news for TFSA investors who are searching for reliable dividend stocks for an income portfolio or for those who use the TFSA as a retirement fund. Lower stock prices boost the yield on the existing dividend, while giving investors who want to reinvest a chance to acquire more shares for the same payout.

Let's take a look at **Enbridge** (TSX:ENB)(NYSE:ENB) and **Royal Bank** (TSX:RY)(NYSE:RY) to see if one deserves to be on your radar.

Enbridge

Enbridge reported solid results for Q3 2018. The energy infrastructure giant generated Q3 2018 adjusted earnings of $933 million, or $0.55 per share, compared to $632 million, or $0.39 per share, in Q3 2017.

Enbridge is also making good progress on its efforts to shore up the balance sheet and simplify the corporate structure.

The company has announced agreements to sell nearly $8 billion in non-core assets in 2018, well ahead of the original target of $3 billion for the year. In addition, management has taken the steps required to bring its sponsored vehicle subsidiaries back under the umbrella of the main corporation. This should result in higher retained cash flow.

Enbridge gets 96% of its cash flow from long-term commercial agreements and has limited exposure to changing commodity prices.

On the growth side, Enbridge is working through $22 billion in secured capital projects through 2020.

As the new assets are completed and go into service, Enbridge says cash flow should increase enough to support annual dividend hikes of 10%.

The company has a 20-year compound annual dividend-growth rate of about 11%. The current payout provides a yield of 6.3%.

The stock trades at close to $42.50 per share compared to a high above $65 in 2015, so there is attractive upside potential when market sentiment improves.

Royal Bank

Royal Bank had a solid fiscal Q4 and full year 2018 led by strong results in the U.S. business.

The bank reported earnings of $3.25 billion for the quarter, representing a 15% gain compared to fiscal Q4 2017.

Royal Bank spent US$5 billion at the end of 2015 to purchase California-based City National to boost its commercial and private banking presence in the United States. Lower taxes and rising interest rates have benefited the operations and Royal Bank generated a 13% quarterly and a 23% annual earnings increase in the wealth management business compared to Q4 and full year 2017. The City National earnings are part of the wealth management group.

Royal Bank is investing heavily in digital technology to ensure it remains competitive.

Management anticipates medium-term earnings growth of 7-10% per year. This should support ongoing dividend increases. The current payout provides a yield of 4%.

Royal Bank trades at $94.50 per share compared to a 2018 high of $108.

Is one more attractive?

Enbridge and Royal Bank should both be solid buy-and-hold picks for a TFSA portfolio. At this point, the stocks appear oversold, so I would probably split a new investment between the two industry leaders.

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