



## TFSA Tax-Refund Showdown: Which Stock Should You Buy?

### Description

Tax season is coming to a close, and I'll bet many of you are wondering what you'll be doing with those tax rebates that might be coming your way. If you haven't already put your 2019 \$6000 contribution to work, using that refunded cash to buy stocks might be the best, most tax-effective way to put it to work.

If you're like a large majority of investors, buying shares of one of Canada's great dividend-paying companies is probably high on your list. You have limited room in your TFSA, though, and a limited amount of cash from that tax return to make a purchase. So if you had to choose between three great stocks like **Enbridge Inc.** ([TSX:ENB](#))([NYSE:ENB](#)), **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)), or **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)), which would be the clear winner?

### Valuation

One of these companies has an edge over the others in terms of valuation. On a price-to-earnings (P/E) and price-to-book (P/B) basis, BNS has the advantage at the moment over the other two companies. It sports a P/E of just over 10 times trailing earnings as compared to BCE's P/E of 19 and Enbridge's P/E of almost 34. The cheaper valuation holds true in terms of price to book, with BNS having a P/B of 1.4, where Enbridge's P/B is a slightly higher 1.6 and BCE has a much higher P/B of 3.3.

*Edge: BNS*

### Growth potential

Of course, just being a cheap stock is not the only reason why you should purchase a company. It pays to look for one with the ability to continue to expand and grow as the years go on, paving the way for capital gains as the company expands and grows its business. Out of the three companies, both BNS and ENB are clearly superior to BCE.

While BCE will grow, it is somewhat limited by the strength of the Canadian economy. Although many people use its service, it will likely continue to be a slow growth company.

Both Enbridge and BNS, on the other hand, are internationally diversified businesses that are working to increase their presence abroad. While this does mean that they will be exposed to foreign geopolitical risks, they also have the opportunity to grow quickly.

Of the two stocks, BNS still has the edge over Enbridge. BNS has a large portion of its business in South America, an area of the world that still has the potential to grow quickly in the coming decades. Enbridge is mostly exposed to the mature regions of North America and Europe. While its earnings are stable, as they are largely contractual and regulated, its exposure to mature economies will probably limit its growth over time.

*Edge: BNS*

## Dividend quality

All three of these companies have strong, growing dividends that they have paid for decades. Unfortunately, only one has a dividend that was paused in the recent past. That company is BNS, which had to suspend its dividend raised during the financial crisis. While the pause was brief, it does underscore the fact that banks are vulnerable to financial downturns. With its domestic lending business facing a possible slowdown in mortgage origination and potentially a housing decline if a recession were to occur, this could negatively impact the bank's ability to pay the dividend.

BCE and Enbridge, on the other hand, did not suspend their dividends when the downturn occurred. In fact, Enbridge has raised its dividend for decades. These raises have been in the double digits recently, with the last hike being 10%. The next one is forecast to be 10% once again in 2020, although management has mentioned that it will lower the raises to the single digits in order to assign more cash to pay down debt.

Enbridge also has the highest current [yield at 5.98%](#), while BCE is slightly lower at 5.3% and [BNS is under 5%](#). In spite of its debt, Enbridge probably has the most solid payout due to its long-term contracts and regulated earnings.

*Edge: Enbridge*

## The verdict

If you have to buy one stock with that tax-refund TFSA cash, BNS is probably the best buy at the moment. Its growth potential, especially in the emerging markets of Latin America, and low valuation make it a great buy.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Energy Stocks

4. Investing
5. Stocks for Beginners

## **TICKERS GLOBAL**

1. NYSE:BCE (BCE Inc.)
2. NYSE:BNS (The Bank of Nova Scotia)
3. NYSE:ENB (Enbridge Inc.)
4. TSX:BCE (BCE Inc.)
5. TSX:BNS (Bank Of Nova Scotia)
6. TSX:ENB (Enbridge Inc.)

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