Banks or Utilities: Which Stock Should Investors Buy for Defensive Dividends?

Description

It's no secret that safety is the order of the day right now, with investor sentiment oscillating sharply between fear and greed. The **TSX** has seen energy climb and fall on an almost daily basis, with risk sectors such as cannabis behaving in a contrary pattern. For example, at the end of last week, energy was up while pot stocks faltered, while the opposite was true at the start of this week.

Today we'll be asking whether defensive investors should buy **Laurentian Bank of Canada** (TSX:LB) or **Enbridge** (TSX:ENB)(NYSE:ENB) stock for stable passive income. Both offer investors a stable dividend, though one is healthier while another has greater growth potential. Let's take a look.

The banking option

Laurentian Bank of Canada has seen its share price shoot up in the last couple of months, adding $5 to every share in a short period. The Quebec-headquartered moneylender has been on a high since its earnings update at the end of last month, when it announced its quarterly dividend. It showed staunch resilience in the face of trade tensions between the U.S. and China, untroubled by the late May sell-off that rattled the banking sector, instead rising sharply in the past few weeks.

Yielding a sizeable 5.82%, investors like Laurentian Bank of Canada for its dependable source of passive income. Its payout ratio in the low 60% region is what makes this stock a good choice for the long-range stockholder, as it signifies a realistic and easily covered dividend unlikely to be missed or lowered significantly.

The case for utilities

Having been eyed with suspicion as the Trans Mountain discussion went back and forth, the midstream sector is now officially open for business. Stocks like Enbridge are likely to continue to improve for some time now that the pipeline has the all-clear, with the gas giant making all the right moves by focusing on its own Line 3 project and investing in its long-term future.

Enbridge boasts an impressive natural gas portfolio: with a 170-year track record, the company has amassed a distribution network spanning 92,500 miles with 278.7 billion cubic feet of storage, serving 3.7 million customers. These are some serious figures, delineating a company with an unassailable economic moat.

Let's look at the dividend. A 6.38% yield with adequate coverage means that stockholders are getting richly rewarded with a safe dividend. On the subject of safety, I wouldn't be overly concerned about its debt-to-EBITDA right now, either, since Enbridge has had to "speculate to accumulate," and clearly has a wide enough moat to be able to protect its position as the major midstream player.

The bottom line

Of course, there is no reason not to hold both banks and utilities in a diversified portfolio — and you should, as both offer different types of defense and split the risk inherent in a single investment. However, if I were to choose just one stock today, it would have to be a utilities stock. With Enbridge's sheer economic lifting power, it's a compelling and rewarding choice for a long-term growth investment.

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vhetherington