Is RioCan Real Estate Investment Trust (TSX:REI.UN) or Enbridge (TSX:ENB) a Buy?

Description

Income investors are searching for reliable REITs and dividend stocks to add to their portfolios.

Let's take a look at **RioCan Real Estate Investment Trust** (TSX:REI.UN) and **Enbridge** (TSX:ENB)(NYSE:ENB) to see if one deserves to be on your buy list.

RioCan

Rising interest rates in the past few years sent REITs and dividend stocks into a tailspin, as investors feared higher borrowing costs would put a dent in cash available for distributions.

Increased rates also made GICs more attractive. At one point last fall, a five-year GIC paid as much as 3.5%.

The situation changed in the United States and Canada when the trade battle between the Trump administration and China picked up steam.

Punitive tariffs and stalled negotiations now threaten to send the global economy into a recession, and that has resulted in a rate cut in the United States. The Bank of Canada is on hold and will likely follow its American counterpart with lower rates if the U.S. Federal Reserve cuts a second time before the end of the year.

All this bodes well for RioCan as it reduces borrowing costs. REITs rely heavily on debt to fund their growth projects.

At the same time, income seekers are abandoning the GIC market in favour of higher-yield alternatives.

RioCan's mixed-used development projects are underway in its six core markets. As the building are completed, revenue and cash flow should increase and support the distribution. RioCan provides an attractive 5.5% yield, and investors could see an increase next year.

If you are looking for a defensive play in the current environment, RioCan might be an interesting pick.

Enbridge

Enbridge also benefits from falling interest rates and lower bond yields, as its debt-servicing costs can be reduced, which makes more cash available for dividend payments.

The company's $19 billion development program should drive revenue and cash flow growth that can support a 10% dividend hike in 2020 and additional increases of 5-7% per year beyond that time frame.

Smaller tuck-in opportunities within the existing asset base will likely drive growth in the coming years. In addition, Enbridge is a monster in the North American energy infrastructure sector and has the firepower to make acquisitions when they fit the new strategy of focusing on regulated assets.

Enbridge spent $37 billion to buy Spectra Energy in 2017, so the company is not afraid to do big deals.

The stock is down amid negative news on the Line 3 replacement project. Weak sentiment towards anything connected to the energy sector has also played a role. While more volatility should be expected, the pullback appears overdone.

Buying the stock today secures a 6.6% yield with a shot at some nice upside when sentiment improves. Enbridge trades at $44 compared to $65 in 2015.

The bottom line

Both stocks should be solid buy-and-hold picks for an income-focused portfolio. If you only choose one, I would probably make Enbridge the first choice.

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Date
2025/08/02
Date Created
2019/08/12
Author
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