TFSA Dividend Investor: Should Royal Bank of Canada (TSX:RY) or Enbridge (TSX:ENB) Stock Be on Your Buy List?

Description

Canadian TFSA investors are wondering which top dividend stocks are the best buys right now for income portfolios and self-directed pensions.

The stock market crash is making some of Canada's best dividend stocks very cheap. In fact, the drop in share prices is driving dividend yields on top companies to levels that would have recently been unimaginable.

Income investors, such as retirees, could really benefit. The yield offered by the Canadian banks on GICs is down to about 1.5%. That's well below the latest inflation statistics.

Let's take a look at two of Canada's top dividend payers to see if one might be an attractive pick today for TFSA investors.

Royal Bank of Canada

Royal Bank (TSX:RY)(NYSE:RY) is Canada's largest financial institution. It is also among the top 15 banks in the world.

The company has a diversified revenue base coming from various segments and geographies. Profitability is well above industry averages. Royal Bank earned $3.5 billion in fiscal Q1 2020 and reported return on equity of 17.6%. The board just raised the dividend, and the payout should be very safe.

An economic slump could trigger a spike in job losses in Canada and increase the risk of loan defaults. A major recession would certainly be negative, but Royal Bank has a strong capital position with a CET1 ratio of 12%. This means the bank has the capital to ride out a meaningful downturn.

The bank has made it through every financial crisis in the past 150 years. Investors who buy during market corrections tend to do very well with the stock over the long haul. At the time of writing, Royal

Bank trades at $87 per share compared to $107 last month.

Investors who scoop up the stock today can get a 5% dividend yield and have a shot at some nice upside in the stock price when the market recovers.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is a leader in the North American energy infrastructure industry.

Investors sometimes confuse the pipeline companies for oil and gas producers. The utilities often get hit hard when commodity prices fall. This has been the case in recent weeks with WTI oil falling from US$63 per barrel in January to a recent price below US$30.

Enbridge effectively acts as a toll booth. It transports oil, natural gas, and gas liquids for the producers and has limited direct exposure to changing market prices for the actual products. Most of its customers are major industry players that will continue to produce, even during difficult market conditions.

Enbridge has a large capital program in place that will drive revenue growth in the coming years. As a result, the company expects to see distributable cash flow rise 5-7% per year over the medium term. Dividend increases should be in line with that outlook.

The stock appears oversold, currently trading at $39 per share compared to $55 in recent weeks. The dividend yield is now an attractive 8.2%.

Is one a better TFSA buy?

Royal Bank and Enbridge both appear very cheap right now. At this point, I would probably split a new investment between the two stocks. Inside a TFSA investors can generate an average tax-free dividend yield of 6.6% right now from these top companies.

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