



Should Enbridge (TSX:ENB) or Bank of Nova Scotia (TSX:BNS) Stock Be on Your Buy List?

Description

Dividend investors have a rare opportunity in 2020 to get above-average yields from **Enbridge** ([TSX:ENB](#))([NYSE:ENB](#)) and **Bank of Nova Scotia** ([TSX:BNS](#))([NYSE:BNS](#)).

Let's take a look two of Canada's [top dividend stocks](#) to see if one deserves to be on your buy list today.

Enbridge stock price

Enbridge rallied from \$44 in August 2019 to above \$56 per share in February this year. Since then, travel restrictions and lockdowns due to the pandemic have hit some of Enbridge's key customers quite hard.

The stock now trades back near the level of a year ago, offering investors who missed the late 2019 surge a chance to pick up Enbridge stock at a favourable price.

Why buy Enbridge now?

Falling interest rates and low bond yields helped push Enbridge's share price higher late last year.

Declining borrowing costs mean more potential cash flow available for payouts when current debt is replaced with cheaper funds. Low returns on fixed income investments also make tier-one dividend stocks more attractive to yield-seeking investors. Government stimulus efforts to combat the recent economic fallout are driving rates even lower. This should continue to be positive for Enbridge.

On the operations side, Enbridge saw volumes drop along its core crude oil pipeline network in recent months. The plunge in demand for all types of fuel forced refineries to cut output, reducing demand from the [oil producers](#). The reopening of businesses and the lifting of lockdowns will continue through the end of 2020 and Enbridge should see the volumes back near previous levels through 2021.

The natural gas distribution utilities and the renewable power assets remain relatively unaffected, helping mitigate the near-term impact in the pipeline group.

Enbridge reaffirmed its 2020 guidance for distributable cash flow when it reported Q2 results. This should ensure the payout remains safe, and investors might even see a dividend hike in 2021.

At the time of writing the dividend offers a 7.5% yield. The stock appears oversold and investors get paid well to wait for the recovery.

Bank of Nova Scotia stock price

Bank of Nova Scotia trades near \$56 compared to \$74 near the start of the year. The bank just reported fiscal Q3 results that indicate the scale of the economic impact caused by pandemic lockdowns.

Bank of Nova Scotia took a \$2.18 billion hit in the quarter on provisions for credit losses, up from \$1.85 billion in the previous three months. The Canadian operations remain very profitable and the company's overall net income in the quarter came in at \$1.3 billion.

The international group, however, faces challenges in the current environment. Bank of Nova Scotia normally gets about a third of its profits from the foreign businesses. The bulk of international banking operations are located in Mexico, Peru, Chile, and Colombia.

Latin America continues to struggle with COVID-19 and the bank increased loss provision in the group to \$1.28 billion, from roughly \$1 billion in the Q2 report.

In other groups, the wealth management and trading units delivered strong year-over-year Q3 performances, but this was not enough to offset the hit to the personal and commercial banking divisions in Canada and Latin America.

Once the pandemic runs its course or vaccines and treatments become widely available, Bank of Nova Scotia's international operations should bounce back.

The bank maintains a strong capital position and the dividend should be safe through the downturn. Bank of Nova Scotia looks cheap today and provides a 6.4% dividend yield.

The bottom line

Near-term volatility should be expected, but buy-and-hold investors searching for top dividend stocks might want to start nibbling on both these stocks. At this point, I would probably split a new investment between the two names.

Five years from now these stocks should trade meaningfully higher.

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