



TFSA Investors: Should You Buy Enbridge Stock or Royal Bank Stock?

Description

TFSA investors are searching for top TSX stocks to add to their personal pension portfolios.

Is Enbridge a good stock to buy now for a TFSA?

Much of the TSX Index appears expensive right now, but Enbridge is one of the few industry leaders that might actually be [undervalued](#).

The stock isn't as cheap as it was at the 2020 low, but investors can still pick up a solid 7.2% dividend yield. Even if the share price stays at \$46.50, new investors can pull in a decent return.

Analysts see headwinds for Enbridge and its peers when it comes to organic growth. Major oil pipeline projects face public and government resistance, and the situation isn't going to get better. This means Enbridge has to find smaller tuck-in projects along the existing asset base. In the [Q4 2020 earnings](#) report, Enbridge said it is working on \$16 billion in in secured capital developments. This should drive annual growth in distributable cash flow (DCF) of 5-7%. Dividend hikes will likely be along the same pace.

Growth can also come through acquisitions. Consolidation in the energy infrastructure sector could ramp up in the next few years and Enbridge's \$90 billion market capitalization makes it a top candidate to expand its portfolio.

Oil demand should rebound through the end of 2021 and into 2022, as refineries ramp up production of gasoline and jet fuel to accommodate commuters and holiday seekers. Enbridge transports about 25% of the oil produced in Canada and the United States.

Enbridge's natural gas and renewable energy assets helped the company get through 2020 in good shape. The board raised the [dividend](#) for 2021, despite a tough energy market.

The stock traded at \$56 before the pandemic. It wouldn't be a surprise to see Enbridge slowly driftback to that price point by the end of next year.

Is Royal Bank stock a top pick today?

Royal Bank ([TSX:RY](#))([NYSE:RY](#)) is Canada's largest financial institution with a market capitalization of \$167 billion. The bank is not only a giant in Canada, but one of the 15 largest in the world.

Royal Bank and its Canadian peers dodged a bullet in 2020. The economic fallout from the COVID-19 lockdowns could have been a disaster for Royal Bank's large mortgage portfolio and its loans to businesses. Government aid and timely loan deferrals gave households and companies a lifeline to get through the worst part of the crisis. As economic activity ramps up again, the threat of massive defaults diminishes.

Some pain is still expected when the government finally turns off the aid taps, but the impact on Royal Bank will be much smaller than originally feared. As a result, Royal Bank is sitting on significant excess capital it built up to weather the pandemic. Investors should see a meaningful dividend boost and aggressive share buybacks once Royal Bank and the other banks get the thumbs up from the government to restart these activities.

Royal Bank could also take advantage of its strong position to make a large acquisition.

The stock is arguably fully valued at the current multiple of 14.5 times earnings, but Royal Bank is one of those stocks you can generally buy at any time and comfortably hold for decades. At today's price near \$117 per share, Royal Bank's dividend provides a respectable 3.7% yield.

Is one a better TFSA bet?

Enbridge and Royal Bank are leaders in their respective industries and should both be solid holdings for a TFSA pension fund. If you only buy one, I would go with Enbridge as the first pick. The stock looks cheap and could offer better returns over the next couple of years.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
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1. Editor's Choice

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2. NYSE:RY (Royal Bank of Canada)
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4. TSX:RY (Royal Bank of Canada)

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