Should You Buy TD (TSX:TD) Stock or Enbridge (TSX:ENB) Stock Now?

Description

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) and **Enbridge** (TSX:ENB)(NYSE:ENB) are two of Canada's top dividend stocks. Is one a better buy right now for your self-directed TFSA or RRSP portfolio?

TD

TD is set to report fiscal Q4 2021 results on December 2. Investors are waiting to see if the bank will raise its dividend and announce a new share-buyback plan now that the government has given Canadian financial companies the green light to restart these activities.

Banks had to halt their dividend hikes in 2020. TD's compound annual dividend-growth rate was better than 10% over the previous 20 years, so investors could see a 20% distribution increase to make up for the last two years. TD is sitting on extra cash it set aside to cover potential loan defaults during the pandemic. The company hasn't been hit with the level of losses it feared when the country first went into lockdown. This is primarily due to government aid that went to businesses and homeowners. In addition, the Canadian housing market remained robust over the past two years.

Looking ahead, TD should benefit from a continued rebound in the Canadian and U.S. economies in the next few years.

Interest rates are expected to gradually increase starting in the first half of 2022. This could lead to a rise in loan defaults. There is also a threat that a sharp increase in rates over a short time period could trigger a housing downturn.

A major crash isn't likely, but the housing market looks overheated, and higher rates could lead to a correction. On the other side of that coin, rising interest rates tend to be net positive for the banks, as they can generate better net interest margins.

TD is a very profitable company and has delivered strong total returns for buy-and-hold investors. The stock trades at a reasonable 11.3 times trailing 12-month earnings, and investors who buy today can pick up a 3.3% dividend yield and wait for the next dividend increase.

Enbridge

Enbridge took a bit of a hit in 2020 when a plunge in fuel demand resulted in lower throughout along its oil pipelines. Despite the difficult environment, Enbridge still managed to deliver on its distributable cash flow (DCF) target last year and even raised the dividend for 2021 by 3%. The strength of the natural gas transmission, gas distribution, and renewable energy businesses provided steady revenues.

This year the oil pipelines are full again and Enbridge just completed the eight-year Line 3 Replacement project. The conclusion of the development means the line can run at full capacity, bringing crude oil from Alberta to refineries in the United States. Enbridge also just closed its US$3 billion acquisition of a key oil export platform and related pipeline infrastructure in Texas.

Revenue and cash flow should improve in 2022, and Enbridge will likely announce another dividend increase in early December when it provides its 2022 financial plan.

The stock is off the 2021 high and currently provides a 6.6% dividend yield.

Is TD or Enbridge a better buy today?

TD and Enbridge are both leaders in their respective industries and should continue to deliver strong total returns for investors.

That said, Enbridge offers the best dividend yield and appears cheap at the current share price. TD stock has had a nice run in the past two months on the anticipation of strong fiscal Q4 results and the impending dividend increase, so it might be due for a near-term pullback. As such, I would probably make Enbridge the first choice today.

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