Is RioCan or Enbridge a Better Buy for Passive Income?

### Description

Retirees and other income investors are searching for top REITs and dividend stocks to generate passive income inside their TFSAs and other self-directed online brokerage portfolios.



## RioCan

**RioCan** (TSX:REI.UN) owns shopping malls. That hasn't been a great business in the past two years, as government lockdowns due to the pandemic forced malls to close. RioCan slashed its generous payout and saw its unit price plunge from $27 to around $14. Fortunately, the government provided significant assistance to the retail sector. Large tenants with strong balance sheets had the ability to weather the storm. Smaller retail operators relied on government help and additional concessions from RioCan to get through the worst of the shutdowns. COVID-19 is still a threat, but it is unlikely that capacity restrictions or total lockdowns will return.

That's good news for RioCan and its investors. Bargain hunters have pushed RioCan back up to the current price near $25. Investors who buy at this level can still get a decent 4% yield.

Looking ahead, RioCan might face some headwinds. Rising interest rates will drive up borrowing costs. Real estate businesses generally carry a lot of debt, so the longer that rates remain high, the more expensive it gets to renew existing debt or acquire additional funds for projects. The result could be less cash available for distributions if revenue and earnings growth can't keep up with the rising debt costs.

## Enbridge

**Enbridge** (TSX:ENB)(NYSE:ENB) is a giant in the North American energy infrastructure industry witha current market capitalization of $117 billion. The company moves 30% of the oil produced in the U.S. and Canada and 20% of the natural gas used in the United States. Enbridge also gets steady revenue from regulated natural gas distribution utilities that serve more than three million customers, and the company has a growing renewable energy group with solar, wind, and geothermal projects.

The days of building large new oil pipelines are likely over, but Enbridge still has a strong portfolio of capital developments. Management says it expects to invest roughly $6 billion per year over the medium term. The renewables and natural gas segments will see most of the growth. Enbridge has new emerging opportunities as well. These include carbon sequestration and hydrogen facilities that will be needed as the energy sector gets serious about meeting ESG targets in the coming years.

Enbridge raised the dividend by 3.4% for 2022. Investors should see annual dividend growth of 3-5% over the medium term, supported by anticipated growth in distributable cash flow of 5-7%. At the time of writing, the stock provides a 5.9% dividend yield. That's an attractive return for investors seeking reliable passive income.

The rebound in the energy industry bodes well for Enbridge in the coming years, as demand for North American oil and gas is expected to surge. Europe plans to significantly increase the amount of natural gas its buys from the United States. At the same time, sanctions on Russian oil will drive up demand for oil produced in the U.S. and Canada. Enbridge spent US$3 billion on an oil export facility late last year. The timing of the purchase couldn't have been better.



## Is RioCan or Enbridge better for passive income?

Enbridge probably has better distribution growth potential in the next few years, and the stock already offers a yield that is nearly 2% better than the mall owner. RioCan's unit price isn't cheap now, and there is downside risk to consider with debt costs likely headed much higher. As such, I would probably make Enbridge the first choice today.

**CATEGORY**

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3. TSX:REI.UN (RioCan Real Estate Investment Trust)

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**Date**
2025/07/19
**Date Created**
2022/04/06
**Author**
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