RRSP Investors: Should You Buy Royal Bank Stock or Enbridge Stock Now?

Description

The market correction is driving down the share prices of top TSX dividend stocks. Investors who stayed on the sidelines this year are wondering which stocks are now good to buy for a self-directed Registered Retirement Savings Plan (RRSP). Let's take a look at **Royal Bank** (TSX:RY)(NYSE:RY) and **Enbridge** (TSX:ENB)(NYSE:ENB) to see if one deserves to be on your buy list.

Royal Bank

Royal Bank is Canada's largest financial institution with a current market capitalization of $176 billion. The bank also ranks among the top 10 in the world based on this metric.

Royal Bank is a profit machine, even in challenging times. The bank generated $16.1 billion in earnings in fiscal 2021 and through the first nine month of fiscal 2022 the bank is on track to top the 2021 results. The bank finished the fiscal third quarter (Q3) 2022 with a common equity tier-one (CET1) ratio of 13.1%. The banks are required to have a CET1 ratio of 10.5%, so Royal Bank is sitting on significant excess cash. This provides a buffer to ride out an economic downturn and gives Royal Bank flexibility to make strategic acquisitions or return more cash to shareholders.

The board raised the dividend by 11% late last year and gave investors another 7% increase when the bank reported fiscal Q2 2022 earnings. Even if the economy goes through a recession next year, investors should see the dividend continue to grow at a steady pace.

Royal Bank will likely see revenue growth slow down and loan losses increase, as soaring interest rates impact businesses and households. That being said, the pullback in the share price from $149 earlier this year to the current price of $123 looks overdone.

Investors who buy Royal Bank stock at the current level can get a 4.1% yield and simply wait for the bank sector to recover.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) trades for $52.50 per share at the time of writing compared to more than $59 in June. Investors can take advantage of the pullback to secure a 6.5% dividend yield at this level.

Enbridge isn't an energy producer. The company simply moves oil and natural gas from the production sites to refineries, utilities, or storage locations and charges a fee for providing the services. Volatility in commodity demand can impact throughput along the pipeline networks, but the changing oil and natural gas prices have limited direct impact on Enbridge's revenue stream. Demand for Canadian and U.S. energy remains robust in both the domestic and international markets, and Enbridge is in a good position to benefit.

The company moves 30% of the oil produced in Canada and the United States and 20% of the natural gas used by American homes and businesses. Enbridge also owns an oil export facility in Texas and is investing in the new Woodfibre liquified natural gas project in British Columbia.

Enbridge has raised the dividend in each of the past 27 years. The current $13 billion capital program should support continued dividend increases.

Is one a better buy?

Royal Bank and Enbridge are leaders in their industries and pay attractive dividends that should continue to grow. At this point, both stocks appear oversold, so I would probably split a new RRSP investment between the two companies to get an average dividend yield of 5.3% and a shot at some nice upside when the market recovers.

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