Is BCE or Enbridge a Better Buy for Passive Income?

Description

The market correction is giving Tax-Free Savings Account (TFSA) investors seeking passive income a chance to buy great Canadian dividend stocks at undervalued prices. Let's take a look at **BCE** (TSX:BCE) and **Enbridge** (TSX:ENB) to see if one deserves to be on your buy list right now.

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BCE

BCE is Canada's largest communications company with a current market capitalization of $55 billion. The core wireline and wireless network infrastructure delivers essential mobile and internet services to households and businesses across the country. BCE also has a media group that is home to a television network, specialty TV stations, radio stations, and interests in pro sports teams. In addition, BCE has chains of retail outlets that sell hardware products.

BCE has the power to raise prices as its costs increase. This is important in the current era of high inflation. The company is also large enough and possesses the balance sheet strength to make the capital investments required to defend its competitive position in the market. BCE is spending $5 billion on network improvements in 2022. These include running fibre optic lines directly to the premises of another 900,000 customers and the expansion of the 5G mobile network. BCE will use the new assets to boost revenue through additional and upgraded broadband service offerings.

The stock traded as high as $74 earlier this year but has pulled back to less than $61 at the time of writing. Investors can now pick up a 6% yield and simply wait for the dividend increase to boost the initial yield. BCE raised the payout by at least 5% annually for the past 14 years.

Enbridge

Enbridge has a $13 billion capital program on the go that should drive steady cash flow growth in the medium term and provide support for ongoing dividend increases. The board raised the dividend in each of the past 27 years, and investors should see the payout increase by 3-5% per year.

Enbridge is pivoting away from its historical growth model, where it relied on mega projects to boost revenue and earnings. Getting large new oil pipelines approved and built is difficult these days and that situation is unlikely to change in the coming years. As a result, Enbridge is focusing on renewable energy assets, carbon capture, and the expansion of oil and natural gas exports from Canada and the United States.

Enbridge just purchased Tri Global Energy (TGE), a U.S. renewable project developer, for US$270 million. TGE builds wind and solar facilities and is one of the three largest operators in the United States. In addition, Enbridge has hydrogen and carbon-capture projects on the go in Canada. Recent investments in an oil export terminal in the United States, and a liquified natural gas (LNG) project in British Columbia further diversify the revenue stream.

Enbridge trades for close to $53 at the time of writing. The stock was above $59 in June. The pullback appears overdone, and investors can now get a 6.5% dividend yield.

Is one a better buy for passive income?

BCE and Enbridge pay attractive dividends that should continue to grow in the coming years. Both stocks look oversold right now and offer 6% yields. At the current prices, I would probably split a new investment between the two companies.

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