Better Buy: Bank of Nova Scotia Stock or Enbridge Stock?

Description

Retirees and other Tax-Free Savings Account (TFSA) investors seeking high-yield passive income can now get great returns from some of Canada's top dividend stocks.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS) stock is down nearly 30% in 2022. The drop has occurred, as investors dumped bank stocks due to rising recession fears both in Canada and abroad.

Bank of Nova Scotia's Canadian business, like its peers, has a large Canadian residential mortgage portfolio. Property owners are facing a double hit of high prices for essential goods and the prospect of a steep jump in mortgage costs. Inflation remains persistent near 7% in Canada and roughly 10% globally. This is putting a big dent in people's budgets. Those with excess income are reducing discretionary spending to cover higher food and gasoline costs. Households already on a tight budget are dipping into savings to make ends meet.

The risk to the banks is that businesses that currently can't get enough workers will shift gears and start eliminating jobs. A surge in unemployment would potentially drive up mortgage defaults and send the property market into a nasty crash.

On the international front, Bank of Nova Scotia has a large presence in Mexico, Peru, Chile, and Columbia. The four members of the Pacific Alliance trade bloc allow the free movement of goods, capital, and labour, creating a market of more than 230 million consumers. Long-term growth opportunities for Bank of Nova Scotia remain attractive in these countries as the middle class expands. In the near term, however, investors are concerned that emerging markets will take a beating if the anticipated global recession in 2023 or 2024 turns out to be severe.

Risks exist, but Bank of Nova Scotia remains very profitable and has a strong capital position to ride out a downturn. The dividend should be safe and investors who buy BNS stock today can get a 6.4% dividend yield.

Enbridge

Enbridge (TSX:ENB) isn't an oil and gas producer. The company simply transports the commodities from the production sites to their end destinations. These include refineries, storage sites, utilities, and export terminals. Enbridge charges a fee for providing the services. As long as throughput remains high, the changes in commodity prices should have limited direct impact on the revenue stream.

The company used to drive growth by building large pipelines. Those days are effectively over amid public and government opposition to new large projects. Enbridge is now focusing investments on opportunities for exporting natural gas and oil to overseas buyers. Management is also expanding the renewable energy group and exploring opportunities in new segments such as carbon capture and hydrogen.

Enbridge is working on a $13 billion capital program that will help drive growth in distributable cash flow. The company is also making small acquisitions that support the new strategy. Investors have received a dividend increase annually for nearly three decades. The current payout provides a 6.6% yield.

Is one a better buy?

Bank of Nova Scotia likely offers better potential for significant total returns, making it more attractive right now for a buy-and-hold Registered Retirement Savings Plan, but there is also more near-term risk. Enbridge is probably a better bet for investors seeking passive income. I would be inclined to split a new investment between the two stocks today.

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