Should You Buy Bank of Nova Scotia Stock or Enbridge Stock for Dividends?

Description

Tax-Free Savings Account (TFSA) investors seeking passive income and Registered Retirement Savings Plan (RRSP) invests focused on total returns can buy some of Canada's top dividend stocks at reasonable prices right now and pick up attractive yields.

Bank of Nova Scotia

Bank of Nova Scotia (TSX:BNS) is Canada's fourth-largest bank with a market capitalization of about $82 billion. The bank is unique among its Canadian peers due to its large international business focused on the Pacific Alliance trade bloc countries, including Mexico, Peru, Chile, and Colombia.

The international business took a hit during the pandemic, as the economies of these countries suffered from the plunge in commodity prices. The group has rebounded on rising oil and copper demand and the division delivered solid results in the fiscal third quarter (Q3) of 2022 compared to the same period last year. Investors, however, are concerned that a global recession in 2023 or 2024 could hurt the international business more than the domestic Canadian operations. This is one reason BNS stock is down about 24% in 2022.

Despite the economic headwinds, the stock appears oversold. Bank of Nova Scotia is on track to beat fiscal 2021 earnings in fiscal 2022, and most economists expect a recession to be short and mild. Assuming this view turns out to be correct, Bank of Nova Scotia has decent upside potential in the next few years.

Investors who buy the stock at the current price near $69 can get a 6% dividend yield.

A $10,000 investment in Bank of Nova Scotia 25 years ago would be worth about $110,000 today with the dividends reinvested.

Enbridge

Enbridge (TSX:ENB) transports 30% of the oil produced in the U.S. and Canada and 20% of the natural gas used in the United States. The company also has renewable energy assets, natural gas utilities, and interests in export terminals, both in operation or under construction. In addition, Enbridge sees growth opportunities in carbon capture and hydrogen and is positioned well to be a key player in these segments.

Enbridge has raised its dividend in each of the past 27 years. The company is on track to hit its 2022 financial goals and the backlog of capital projects is now up to $17 billion. This should support steady revenue and cash flow growth in the next couple of years to support ongoing dividend increases.

Enbridge stock trades near $53.50 at the time of writing compared to $59.50 in June. The dip gives investors a chance to pick up a solid 6.4% dividend yield.

A $10,000 investment in Enbridge stock 25 years ago would be worth about $205,000 today with the dividends reinvested.

Is one a better buy right now?

Both stocks pay attractive dividends that should continue to grow. Bank of Nova Scotia likely offers better upside potential from its current share price, but there is also higher risk of further downside if a recession turns out to be severe. Enbridge provides a better yield, but the stock probably has limited price appreciation at this point.

I would probably split a new investment between the two stocks right now for a TFSA focused on passive income or a self-directed RRSP targeting total returns.

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