Better Buy for Rising Dividends: Royal Bank Stock or Enbridge?

Description

Retirees and other investors are seeking reliable dividend growth during difficult economic times. One strategy involves buying industry leaders in the TSX that have long track records of delivering decent total returns. Let's take a look **Royal Bank** (TSX:ENB) and **Enbridge** (TSX:ENB) to see if one deserves to be on your buy list.

Royal Bank

Royal Bank just raised its quarterly dividend by 3% to $1.32 per share. This is on top of a 7.5% hike that investors received when Royal Bank reported results for the fiscal second quarter (Q2) of 2022. In addition, the bank raised the distribution by 11% late last year after the government ended the pandemic ban on dividend increases by banks.

At the time of writing, the stock trades near $133 per share and offers a 4% yield. Royal Bank is going to provide a 2% discount on stock purchased under the dividend-reinvestment plan (DRIP) beginning in February 2023. This is attractive for investors who want to harness the power of compounding to build wealth in their retirement portfolios.

Royal Bank reported solid fiscal 2022 earnings of $15.8 billion. The results are down just 2% from a strong 2021. Royal Bank also just announced a $13.5 billion cash deal to acquire **HSBC Canada**. The move will add 130 branches to the existing Canadian network and brings $134 billion in assets. Royal Bank is paying about 9.4 times HSBC Canada's expected 2024 adjusted earnings when synergies are considered. The purchase price is higher than analysts expected, but the multiple appears to be reasonable given the lack of opportunities in the Canadian market for large acquisitions.

Royal Bank stock is up nearly 13% from the October closing low but is still well off the 2022 high near $150.

Enbridge

Enbridge recently announced a 3.2% increase in the dividend payment. The new annualized distribution of $3.55 provides a yield of 6.5% at the current share price near $54.25. Enbridge stock is up nearly 10% in 2022 but is down from the high around $59.50.

Enbridge reported solid Q3 2022 earnings and confirmed the business is on track to hit the full-year financial targets. The company now has a $17 billion capital program that will help boost distributable cash flow.

Enbridge is focusing on the expansion of its Canadian natural gas utility assets as well as putting money into export opportunities and renewable energy initiatives. Enbridge purchased an oil export terminal in Texas last year and bought a stake in the Woodfibre liquified natural gas (LNG) project in British Columbia that is expected to be operational by the end of 2027.

The rebound in oil and natural gas demand is expected to continue. Commuters are heading back to the office, and airlines are ramping up capacity to meet soaring travel bookings. This is good news for Enbridge’s oil pipeline assets that carry 30% of Canadian and U.S. oil production. on the natural gas side, Europe is buying more LNG from North America to replace its reliance on Russia.

Is one a better bet?

Investors seeking passive income might want to make Enbridge the first choice due to the better dividend yield. I would probably split a new investment between the two stocks for a portfolio focused on long-term total returns.

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aswalker