Better TFSA Buy: Enbridge Stock or Bank of Nova Scotia

Description

Enbridge (TSX:ENB) and **Bank of Nova Scotia** (TSX:BNS) trade at prices that are meaningfully below their 12-month highs. Retirees and other investors seeking above-average dividend yields are wondering if one of these stocks is undervalued right now and good to buy for a Tax-Free Savings Account (TFSA) focused on passive income.

Enbridge

Enbridge trades for close to $52 at the time of writing compared to $59 in June last year.

The pullback appears overdone considering the solid performance in 2022 and the recent dividend increase. Investors who buy the stock at the current level can get a 6.8% dividend yield and look forward to decent dividend growth in the coming years.

Enbridge raised the payout in each the past 28 years. That's a good track record that should continue, supported by the $18 billion secured growth capital program and any potential acquisitions that could boost revenue and cash flow.

Enbridge is a giant in the North American energy infrastructure industry with a current market capitalization of about $106 billion. This gives the company the financial clout to make strategic acquisitions that fit the growth objectives.

Enbridge expects adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) to be $15.9 billion to $16.5 billion in 2023. That's up from $15.5 billion in full-year 2022.

Bank of Nova Scotia

Bank of Nova Scotia is up about 12% to start 2023. The rebound has occurred, as bargain hunters saw an opportunity to buy a top-quality bank at a depressed price. Despite the sharp rebound to begin this year, BNS stock is still down 20% over the past 12 months.

Soaring interest rates and persistent inflation in Canada have investors worried that the Bank of Canada might be forced to keep rates high into 2024, as it tries to drive down rising prices. A pause in rate increases is expected after the latest hike, but that could be short-lived if the jobs market remains too tight in the coming months.

Additional jumps in interest rates could tip the housing market into a steep decline, as overleveraged property owners get squeezed to the point that they have to sell or default on the loans. If a wave of panic listings hits the market and property prices tank, the Canadian banks could be in for a rough ride.

Bank of Nova Scotia's international business might also be worrying investors. The group delivered strong results in fiscal 2022 after a tough run during the pandemic. However, political tensions in Peru, Chile, and Colombia risk slowing down growth in the Pacific Alliance countries. Bank of Nova Scotia has a large presence in all three as well as Mexico.

A deep global economic recession could also drive down oil and copper prices. These countries rely on high oil or metals prices for a good chunk of their revenue.

Despite the risks, Bank of Nova Scotia probably deserves to trade at a higher share price. The bank generated fiscal 2022 adjusted earnings that topped the 2021 results, and the board raised the dividend last year. Investors can now get a 5.6% dividend yield.

Is one a better bet today?

Enbridge and Bank of Nova Scotia pay attractive dividends that should continue to grow. The stocks appear oversold and deserve to be on your radar. If you only buy one, I would probably make Enbridge the first pick right now for a TFSA focused on passive income. The dividend yield is higher, and the stock should hold up better if a recession turns out to be worse than expected.

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