Telus Corporation vs. BCE Inc.: Which Is the Better Dividend Investment?

Description

You can debate all you want about who has the better TV packages or cell phone coverage – **Telus Corporation** (TSX: T)(NYSE: TU) or **BCE Inc** (TSX: BCE)(NYSE: BCE). But today we're tackling a more pressing question: which telecom giant is a better dividend stock?

Certainly, old Bell and Telus have plenty of things in common. Both companies earn reliable profits. Both pay steady dividends. What's more, because the Internet and mobile phones are practically necessities nowadays, both firms should hold up fairly well even if the economy hits the rocks.

And unless consumers go back to sending mail by carrier pigeon, both will be paying out dividends for decades to come. But before they fork over your hard earned money, there're also some key differences between these two firms that need to be considered. Let's see how the two dividend champions stack up against one another:

1. Dividend yield

First off, we have the easy task of comparing dividend yields. It's no contest. BCE yields 4.8%, which is almost a full percentage point higher then Telus's 3.9% payout. So, BCE is your first choice for current income. *Winner: BCE.*

2. Dividend history

Telecom investors have been able to count on a dividend cheque arriving in their mailbox every quarter. BCE has been paying a dividend to shareholders since 1881. That's one of the longest consecutive payouts amongst all publicly traded stocks in North America. Telus is no slouch, either. The firm has been delivering dividends to investors since 1916. *Winner: BCE.*

3. Dividend safety

Of course, we also want to measure their ability to maintain the dividends in the future. Telus pays out 63% of its profits to shareholders in distributions. That gives it plenty of financial wiggle room if business sours. BCE, meanwhile, pays out a full 100.6% of earnings in dividends. That doesn't mean the payout is in danger (most of BCE's expenses are non-cash), but it does say future dividend hikes may be limited. *Winner: Telus.*

4. Customer loyalty

Locking in a loyal customer is the key to earning superior cash flows and thick margins. That's the hallmark of a wonderful business. Thanks to its excellent customer service, Telus' monthly postpaid churn rate was just 0.9% last quarter – one of the lowest in North America. *Winner: Telus.*

5. Dividend growth

BCE has increased its dividend at a 6.8% annual clip over the past decade. That's not bad, but Telus has raised its dividend by about 18.2% per year over the same period. *Winner: Telus.*

6. Earnings growth

Future dividend growth will come mostly from growing profits. Based on analyst estimates compiled by *Reuters*, BCE's earnings per share, or EPS, are expected to grow at a 5.0% compounded annual rate over the next five years. However, Telus is expected to post 9.8% annual EPS growth over that same time.*Winner: Telus.*

7. Valuation

No matter how great a business might be, it can still be a bad investment if you overpay. That said, both BCE and Telus trade at a reasonable 15 times forward earnings. But given that Telus is expected to grow earnings at a much faster clip, the stock should be trading at a premium. Winner*: Telus.*

The verdict

BCE and Telus are both wonderful businesses that will continue to crank out dividends fro decades to come. That's why I have recommended both here on The Motley Fool Canada. It's tough to pick between the two. However, with a metaphorical gun to my head, I lean toward Telus because the company comes out ahead on most of my criteria.

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Date
2025/08/27
Date Created
2014/11/12
Author
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