Telus Corporation vs. Royal Bank of Canada: Which Is the Safest Dividend Pick?

Description

The recent carnage in the oil market has sent dividend investors scrambling to find safe stocks that offer decent returns. Telecoms and financials have historically been solid choices, but that might not be the case going forward.

Let's take a look at **Telus Corporation** (TSX:T)(NYSE:TU) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see if one is a better bet right now for income seekers.

Telus Corporation

Telus has become Canada's fastest-growing communications company by sticking to the things it knows best — providing customers with best-in-class products and exceptional service.

In its Q3 2014 earnings statement, Telus reported strong revenue growth in each of its core business units.

On the wireline side, the company's national broadband network is attracting more high-speed internet users. Telus Health continues to gain steam as the leader in a rapidly expanding medical-services market, and Telus TV subscriptions are rising as customers abandon cable competitors.

Telus' mobile division is the poster boy for Canada's smartphone sector. The company's postpaid churn rate is less than 1%. This is important because it costs about $400 to acquire a new mobile customer, and happy clients tend to spend more. Telus had an industry-leading blended average revenue per unit (ARPU) of $64.51 in the third quarter.

Telus also takes good care of its shareholders with consistent dividend hikes and a hefty share-repurchase program. The company just increased its dividend by 11% and is targeting a payout increase of at least 10% per year through 2016.

Telus currently pays a dividend of $1.60 per share that yields about 3.9%.

Royal Bank of Canada

Canada’s largest bank by market cap has been on a tear for the past few years, consistently reporting solid profits and hiking dividend payouts.

In the company’s most recent quarterly earnings statement, Royal Bank reported net income of $2.3 billion, representing a year-over-year gain of 11%. The quarter capped a record year for the bank, which ended October 31.

After the big 2014 earnings party, Royal is warning investors that there might be a bit of a hangover in 2015.

Royal’s Canadian retail operations have been extremely profitable during the past few years as people bought expensive houses, maxed out lines of credit, racked up credit card bills, and splurged on new cars. All of this has been fuelled by low interest rates but there is a limit as to how much debt the public can handle, and it looks like the tipping point could arrive in the next year or two.

The result will be intense competition for a smaller pool of loans, and that leads to lower margins.

Royal’s capital markets division had an unbelievable 2014, and it is unlikely the group will deliver the same level of growth this year.

One thing investors should watch is the $192 billion in Canadian residential mortgages Royal Bank had sitting on the books as of October 31. The uninsured component represented 60% of the portfolio.

Which should you buy?

Telus is probably the better choice.

The Canadian mortgage market is a bit scary at the moment and only 40% of Royal’s mortgage loans are insured. The company has ample liquidity to withstand a housing slowdown, but the tough market conditions facing all the banks means competition is going to be fierce. As such, revenue and dividend growth at Royal Bank are probably going to be weaker moving forward.

Finding stable Canadian dividend stocks is a challenge in the current environment. The Motley Fool team has been working hard to find safe picks that offer our readers strong dividend growth and consistent capital appreciation. The following free report analyzes one such company.

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