Telus Corporation vs. BCE Inc.: Which Is the Best Dividend Stock?

Description

Telus Corporation (TSX:T)(NYSE:TU) and **BCE Inc.** (TSX:BCE)(NYSE:BCE) are two of Canada's most popular dividend stocks. Both companies have rewarded shareholders for years and new, yield-hungry investors are wondering which stock will give them the best return going forward.

Let's take a look at the two companies to see if one deserves to be in your portfolio right now.

BCE Inc.

BCE has has spent billions in recent years to build a competitive moat so wide that it is essentially unrivaled in Canada. The company's strategy of controlling both content and distribution channels means it has amassed a mix of assets that include retail, media, sports, and advertising properties to complement the distribution network.

Astral Media, CTV, Glentel, and Maple Leaf Sports and Entertainment are just some of the businesses BCE bought on its own or with a partner.

Telus Corporation

Telus is pursuing a very different strategy. It has decided to avoid the content game and is more focused on investing in infrastructure, technology, and customer support initiatives to ensure that it provides unmatched levels of service to its wireline and wireless clients.

On the business side, Telus is leveraging its expertise to target the health sector and is now Canada's largest provider of digital medical services designed to help physicians, pharmacists, hospitals, and patients exchange and manage data in a secure and reliable way.

Which strategy is best?

Both companies realize they have to diversify in order to drive future growth.

BCE's asset mix is impressive, but there are a lot of moving parts and it is going to take some time to get everything working in sync. The company needs to efficiently generate revenue from its content at every point of contact with users across all the various distribution platforms. In the end, it is all going to come down to execution.

Telus's focus on service is luring unhappy customers from competitors, especially from cable companies. Telus TV and the company's broadband Internet offerings are enjoying strong subscriber growth, and the wireless division boasts the industry's highest average revenue per user.

Telus Health still only represents a small part of overall revenue, but the long-term potential is significant for the division.

Some analysts view Telus's lack of content assets as being a negative, but the company can still do content deals with its distribution competitors. For example, Telus's customers have access to BCE's new Crave streaming service. BCE would probably prefer to make the service exclusively available to its own subscribers, but Telus has a very large, loyal, and growing customer base. Getting people to switch providers based on content choices is a difficult task, especially when customer service levels are not considered to be equal.

Dividend growth and capital appreciation

In the past five years, Telus has increased its dividend by 100% and the stock has risen by 166%. BCE has only raised its payout by 50% during the same time frame, and the stock has risen 91%.

Valuation

Both Telus and BCE are trading around 19 times trailing earnings, which is at the high end of their historic ranges. A rotation out of the energy sector is partly responsible for the popularity of the stocks, but low interest rates are also a factor. As long as low rates persist, the telecom companies will enjoy a premium valuation.

Which should you buy?

Both companies are strong long-term investments, but the performance over the last five years suggests that Telus is the horse to bet on. Looking forward, the choice hinges on whether or not you think BCE's diversification into media and sports is going to outperform Telus's focus on health and superior customer service.

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