Which Is a Better Dividend Stock: BCE Inc. or TransCanada Corporation?

Description

On the surface, **BCE Inc.** (TSX:BCE)(NYSE:BCE) and **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) must seem like very different companies. After all, one provides telecommunications services, and the other builds energy pipelines.

From an investor's perspective, these companies are very similar. Both operate critical infrastructure and deliver a vital product through its broad network. They are both very resilient, despite facing headwinds. Most importantly, they generate very smooth cash flow, which is perfect for paying big dividends.

With all that in mind, which of these companies is a better dividend stock?

The case for BCE

If you're looking for a big dividend from a reliable company, BCE should be near the top of your list. It operates in an industry with limited competition and high barriers to entry, which is great for big regular payouts to shareholders. As it stands, the dividend comes with a yield of nearly 5%—good enough for sixth spot on the **S&P/TSX 60**.

Investors are understandably worried about increasing regulation in the telecommunications sector. Most notably, Ottawa is trying to bring a fourth wireless carrier to every market and has banned three-year contracts.

While these efforts don't help BCE, they shouldn't be that big of a concern. The industry's major players are fairly disciplined, so any increase in costs should be passed onto consumers. Even if a fourth wireless carrier is introduced, I don't expect that to change.

Most importantly, BCE seems to accept its fate as a dividend-first company. We aren't seeing plans for major international expansions (the company has tried this before and failed), so investors know what they're getting.

The case for TransCanada

On the surface, TransCanada must seem like a very risky stock. After all, who can ignore the headlines about Keystone XL, the ire of environmentalists, and the decline of the oil industry?

That said, TransCanada is actually a very stable company. Like BCE, it operates critical infrastructure, and operates based on multi-year contracts. Importantly, these contracts do not expose TransCanada to commodity prices.

Even if Keystone is rejected—which is likely—there are other ways TransCanada can spend its money. If you don't believe me, TransCanada has over $40 billion of commercially secured projects through the end of this decade.

TransCanada's dividend may not yield as much as BCE's—currently 3.9%—but it has grown very consistently in the last decade. The company hopes to keep this kind of growth going, and I believe that goal will be met. Dividend investors should be very pleased indeed.

The verdict

BCE's dividend yield is certainly larger, but I see much fewer opportunities for it to grow. BCE has also been labeled "the most expensive telco stock in North America," likely because it pays out such a fat dividend. So, I would give the nod to TransCanada at this point.

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