Does BCE Inc. Have a Better Dividend Than the Banks?

Description

For years, Canadian banks have been must-hold stocks for dividend investors, and that remains the case. If you don't believe me, just look at the RBC Canadian Dividend Fund, which has nearly $18 billion in assets under management. The mutual fund's top three holdings are all banks, as are the sixth-largest and eighth largest positions. All in all, financial services account for nearly half of the fund's holdings.

So, does that mean dividend investors should pile into the banks? Well, not necessarily. There are plenty of strong alternatives in Canada, such as **BCE Inc.** (TSX:BCE)(NYSE:BCE).

Is BCE a better dividend stock than the banks? We take a look below.

The case for BCE

BCE is one of Canada's most popular dividend stocks, and for good reason. The company faces limited competition, and is protected by high barriers to entry. It also benefits from Canadians' increasing thirst for data services, especially on mobile devices. And because BCE makes money from subscriptions, revenue tends to be nice and smooth. It's no wonder the company is able to pay such a consistent dividend.

Better yet, BCE pays out practically all of its income to shareholders, which comes with a couple of advantages. First of all, income-hungry investors can enjoy a nice yield—4.9% as of this writing. Secondly, shareholders can be certain that BCE's profits won't be wasted.

Meanwhile, there are plenty of concerns for the banks. In the short term, Canada's economy is on shaky ground. Low oil prices are wreaking havoc out west. Consumer debt has reached record levels. Real estate prices look inflated. Lower interest rates are cutting into the banks' margins. All of this could spell big trouble for the banks, something that dividend investors are no doubt worried about.

And banks don't yield nearly as much. For example, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) yields just 3.8%.

The case for the Canadian banks

Despite these concerns, there are two big arguments for the Canadian banks over BCE.

First of all, the banks only pay out about half of their net income. So, even though this results in a lower yield, it means the banks won't have to cut their dividends if their net income falls. For instance, TD's annual dividend works out to $2.04 per share. And in the last 12 months, the bank has pulled in $4.09 in net income.

Secondly, the banks trade for only about 10-13 times earnings, even though they've been able to keep growing their income. BCE on the other hand trades for roughly 20 times earnings, despite having limited growth prospects.

Which should you choose?

It depends who you are. Some people just want to collect their dividend income without worrying about their investment portfolios. Many retirees fit this description. And for them, BCE is the better option.

But for the rest of us, the banks are clearly the better option, mainly because they are so much cheaper. You just have to be willing to take some lumps here and there.

CATEGORY

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