Should You Put BCE Inc. or Canadian National Railway Company in Your TFSA?

Description

The tax-free savings account offers long-term investors an opportunity to build significant savings with relatively small initial investments.

How?

The secret lies in the power of compounding. When savers hold dividend-growth stocks in their TFSAs, they can reinvest the full amount of their dividends to buy new shares. Over a period of several years, the results can be staggering.

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The best stocks are ones that have a long history of dividend growth supported by rising revenues. Ideally, the companies hold dominant positions in their industries and have few serious competitors.

Let's take a look at **BCE Inc.** (TSX:BCE)(NYSE:BCE) and **Canadian National Railway Company** (TSX:CNR)(NYSE:CNI) to see if one is a better TFSA pick.

BCE

BCE used to be a boring telephone business, but a strategic shift over the past few years has turned the company into a dynamic media and communications powerhouse.

For long-term holders of the stock, the move into media was viewed as being somewhat risky, but the timing appears to be right, and BCE is now so well entrenched in the market that it's difficult to see how it would ever be bumped off its throne.

BCE has built a portfolio of assets that includes professional sports teams, a television network, radio stations, specialty channels, and retail outlets. When combined with the company's world-class wireless and wireline network infrastructure, you get a business that pretty much interacts with most Canadians on a weekly, if not daily, basis.

In fact, if you send a text, call a friend, check your e-mail, download a movie, listen to the weather report, watch the news, or catch a Leafs game, the odds are pretty good that you just put a bit of cash into the pockets of BCE's shareholders.

BCE has a long history of steady dividend growth that's supported by rising free cash flow. The current quarterly payout of $0.6825 per share yields 4.6%.

A $10,000 investment in BCE just 15 years ago would now be worth $33,000 with the dividends reinvested.

CN

CN is widely viewed as the most efficient railway company in North America, and its unique rail network is the only one that offers access to three coasts.

That's a pretty powerful combination, and it is a big reason why the company is so successful.

CN is literally the backbone of the Canadian and U.S. economies, transporting goods that range from coal to cars. The diversified nature of its business segments as well as its significant operations in both Canada and the U.S. provides a revenue stream that remains balanced when certain areas of the economy hit low points in the cycle.

For example, the oil rout is hurting crude shipments, but it is providing a nice lift to other segments such as auto and forestry.

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How?

The plunge in oil has hammered the Canadian dollar, and that makes the Canadian manufacturers and timber companies more competitive. It also means every dollar of profit generated south of the border is now worth more than CAD$1.30.

CN delivered Q4 2015 net income of $941 million, up 11% compared with the same period the previous year. This occurred despite a 1% drop in revenue and an 8% decrease in total carloads.

The company is a free cash flow machine, and investors receive a substantial part of the profits through share buybacks and higher dividends. CN recently increased the distribution by 20%. The current payout offers a yield of 1.9%.

Long-term returns?

A $10,000 investment in CN just 15 years ago would now be worth $123,000 with the dividends reinvested.

Which should you buy?

Both stocks are great holdings. BCE has the better dividend, so income seekers might want to go with the telecom giant. Investors with an eye to build long-term growth should probably buy CN.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:CNI (Canadian National Railway Company)
3. TSX:BCE (BCE Inc.)
4. TSX:CNR (Canadian National Railway Company)

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aswalker

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