Is Telus Corporation or Royal Bank of Canada a Better RRSP Pick?

Description

Canadians are increasingly responsible for saving additional money to help cover living expenses in retirement.

One way to do this is to hold dividend-growth stocks in an RRSP.

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 choice.

Telus

Telus holds a strong position in a market with few competitors and huge barriers to entry. That's normally a pretty good place to start when searching for a stock to put in your RRSP.

The company is committed to providing best-in-class customer service, and the effort appears to be paying off. Telus boasts the lowest mobile churn rate in the industry and has generated 22 straight quarters of rising average revenue per user on a year-over-year basis.

Some pundits say the company is missing the boat by not owning a media division, but new changes to the way Canadians choose their TV services might alter that perception.

As of March 2016, TV subscribers have the option to choose a basic package and add channels on a pick-and-pay basis. This could spell trouble for content owners who produce channels that aren't among the most popular picks.

Instead of buying media assets, Telus has invested in other areas. For example, Telus Health is already the country's leading provider of digital solutions to doctors, hospitals, and insurance companies.

Telus often raises its dividend twice per year, and investors should see annual distribution growth of at least 8% through 2020. The current yield is 4.3%.

Royal Bank

Royal Bank generated nearly $10 billion in profit last year, and it looks like 2016 will be as good or even better. Total net income for fiscal Q1 and Q2 2016 came in above $5 billion.

The company's success can be attributed to its balanced revenue stream. Royal Bank generates significant earnings from its personal and commercial banking operations, but it also has strong wealth management, capital markets, and insurance divisions to round out the business.

The Canadian market is facing some headwinds, so Royal Bank has decided to focus investments on the United States. Its recent US$5 billion purchase of California-based City National gives the bank a solid platform to expand into the American private and commercial banking sector.

Housing and energy are constantly on the minds of Canadian investors. Royal Bank has less than 2% of its total loan book directly exposed to oil and gas companies, so there isn't too much to worry about on that front.

Regarding housing, the bank finished fiscal Q2 2016 with $275 billion in Canadian residential mortgages. That's a tidy sum, but 46% of the portfolio is insured and the loan-to-value ratio on the rest is 54%. This means the housing market would have to correct significantly before Royal Bank takes a material hit.

Royal Bank has a strong history of dividend growth, but some market observers say the bank might not be as generous with payout hikes in the medium term given the persistent low-rate environment.

The yield is currently 4%.

Which is a better bet?

Both companies are solid long-term picks for an RRSP account. At the moment, I would give the edge to Telus for its higher yield and strong dividend-growth outlook over the medium term.

CATEGORY

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