TransCanada Corporation vs. Royal Bank of Canada: Which Is a Better TFSA Pick?

Description

Canadian investors are searching for top stocks to add to their TFSA portfolios in an uncertain market.

Let's take a look at **TransCanada Corporation** (TSX:TRP)(NYSE:TRP) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see if one is more attractive right now.

TransCanada

TransCanada had a good 2016, and the positive momentum looks like it should continue.

Why?

The company went on the acquisition trail last year, buying Columbia Pipeline Group for $13 billion. The deal added important strategic assets in the Marcellus and Utica shale play as well as key natural gas pipeline infrastructure running to the Gulf Coast.

In addition, TransCanada topped up its development portfolio, which includes near-term projects worth about $23 billion. As these assets are completed and go into service, TransCanada expects cash flow to increase enough to support annual dividend hikes of at least 8% through 2020.

TransCanada is also hoping to get its Keystone XL pipeline approved by the Trump Administration and is still working on the Energy East project, which would carry Alberta's oil to the Canadian east coast.

TransCanada pays a quarterly dividend that yields 4.1%.

Royal Bank

Royal Bank earned more than $10 billion in profits in fiscal 2016 and is on track to deliver even stronger results this year.

The company's success lies in its diversified revenue stream with strong contributions coming from personal and commercial banking, capital markets, wealth management, and insurance operations.

Royal Bank is also growing its presence in the U.S. through its 2015 purchase of a California-based private and commercial bank, City National, for US$5 billion. The acquisition is already contributing to the wealth management earnings stream and provides Royal Bank with a strong base to expand its presence in the U.S. market.

Royal Bank has a strong track record of dividend growth. The current quarterly dividend provides a yield of 3.6%.

Is one more attractive?

Both companies should be strong buy-and-hold picks for a TFSA portfolio.

That said, Royal Bank has rallied significantly in recent months, and a pullback might be in the cards in the near term. The difficult publicity issues now facing the Canadian banks should also be considered.

TransCanada currently provides a higher yield and probably offers better dividend-growth prospects over the medium term. As such, I would go with the pipeline and power company as the first choice today.

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Date
2025/09/12
Date Created
2017/03/17
Author

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