Which Is the Better Dividend Stock: BCE Inc. or Canadian Imperial Bank of Commerce?

Description

When looking at dividend stocks, sometimes it is difficult to choose between two, especially when yields, payouts, and the overall outlook for the companies can be similar. I'm going to evaluate two blue-chip stocks to determine which dividend gives you the best value for your investment dollars.

BCE Inc. (TSX:BCE)(NYSE:BCE) is a media and telecommunications giant in Canada and is as safe a stock as you can find. With a yield of around 4.9%, it provides you with a great low-risk dividend while you invest in one of the country's top brands.

Canadian Imperial Bank of Commerce (TSX:CM)(NYSE:CM) is a Big Five bank, and with its recent acquisition of PrivateBancorp and expansion into the U.S., it will have even more growth potential. With a yield of 4.75%, it is not far behind BCE, and it too presents a low-risk option for investors to secure quarterly dividends.

Which dividend is better?

With the yields being very similar, the next step is to look at dividend growth, and this is where we may seem some distance created between these two stocks.

In each of the past five years, BCE has increased its payout, with the most recent hike being over 5%. From a quarterly payment of $0.5675 in 2012, the company has since increased its dividend by 26% for a compounded annual growth rate (CAGR) of 4.8%. At that rate, it would take almost 15 years for BCE's dividend to double, and for long-term investors, that could be very appealing.

Not only has the CIBC raised its dividend in each of the past five years, but it has often done so multiples times a year. Most recently, the dividend was hiked up to $1.30, which is up only 2.4% from the $1.27 that was being paid out last quarter, but it is 7.4% higher than what was paid out a year ago. In five years, the dividend has grown by 38% for a CAGR of 6.7%. If the bank continued this rate of increase, it would take less than 11 years for the dividend to double.

Growth opportunities

An important factor to consider is also what kind of growth the two companies may see and which one has more upside in the long term.

In four years, CIBC has seen its net revenue grow by 20% for a CAGR of just 4.6%. However, as the company grows in the U.S., that figure might increase.

By comparison, BCE has seen growth of only 8.7% in four years with a CAGR of just over 2%. BCE might see more challenges come its way if the CRTC allows for more foreign investment and competition into the market, as up until now Canadian companies have been largely insulated from external threats. However, recently, the telecommunications watchdog has been trying to give consumers more options and rights, which could present obstacles to BCE's growth.

Bottom line

CIBC has had stronger dividend growth, and the company also has better long-term prospects than BCE. Being a Big Five bank means CIBC will have a stable future, and it will not have to face the same level of competition and uncertainty that BCE will. Ultimately, both stocks are good investments, but if you can only invest in one, then CIBC should be the clear choice.

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