TFSA Investors: BCE Inc. or Rogers Communications Inc.: Better Dividend-Growth Stock to Buy Today?

Description

If you're taking a preservation-of-capital strategy for your TFSA investments, then you're probably having a look at two of Canada's largest telecoms for their high yields and relative safety. You can't use capital losses to offset capital gains in a TFSA, so many investors may find it wise to avoid losses wherever possible in their TFSAs.

Not the best environment for telecom investors, but does it still make sense to own them for the long haul?

Interest rates are going up, and that's a clear negative for Canadian telecoms. The telecom business is incredibly capital intensive, and with higher borrowing rates comes lower profitability. Think about all the infrastructure upgrades that all the telecoms have to do to give the maximum amount of coverage to the markets where they operate. Every time wireless tech changes, the telecoms need to open their wallets to make the upgrades needed to keep Canadians connected at high speeds.

Until recently, the Big Three telecoms, including **BCE Inc.** (TSX:BCE)(NYSE:BCE) and **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI), have had very little competition compared to the telecoms south of the border. The Big Three have pretty much operated as a cartel in the past, and that resulted in ridiculously high wireless prices for Canadians.

Going forward, it looks like the cartel-like days of the Big Three are coming to an end. The CRTC is pushing forth regulations, and the door has been open to a fourth major competitor in Freedom Mobile, owned by **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR).

The rising interest rate environment just adds salt to the wounds of all the existing telecoms, so does it make sense to own any telecoms with such long-term headwinds on the horizon?

Let's take a look at two popular picks in BCE and Rogers, to see if either is worthy of a spot in your portfolio today.

BCE Inc.

BCE has been a market darling for many years with its top-notch capital gains and its fat dividend, which currently yields 4.9%.

As Canada’s largest telecom, it can be notoriously difficult to grow, and when combined with the headwinds I mentioned previously, it appears that the days of high capital gains may be coming to an end. That means returns and dividend hikes will be considerably less than what investors have grown accustomed to in the past.

The dividend is still really attractive; however, if you invest in BCE, don’t expect much in the way of capital gains, as the 4.9% return may be the most that you’ll get, at least for the short to medium term.

Rogers Communications Inc.

Rogers is going to be facing the same headwinds as the other telecoms, but I think it’s better equipped to outperform its peers in the Big Three thanks to its subscriber growth momentum fuelled in part by its irresistible promotions and strong advertising campaigns.

Rogers has a lower dividend yield at 2.95%, but I believe the stock still has a fair bit of upside versus BCE, especially once CEO Joe Natale has a chance to bring his wealth of experience over to drive improvements across the entire board.

Bottom line

I think Rogers is the much better buy today for investors looking for growing dividend and a fair amount of capital gains. BCE looks like it has run into a brick wall, but Rogers looks like it can keep chugging along, at least over the short to medium term.

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