TFSA Investors: Should You Buy BCE Inc. or Shaw Communications Inc.?

Description

I always recommend keeping a couple of telecom stocks in any income portfolio. And if you are starting your saving journey through your Tax-Free Saving Account (TFSA), then this strategy is much more important.

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Canadian telecom companies are great dividend stocks. They operate in a tight regulatory environment, where competition is not too cut-throat, as we see in the U.S. So far, the market is dominated by the "Big Three" players, including **BCE Inc.** (TSX:BCE)(NYSE:BCE).

But a recent entry by **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) is fast changing the market dynamics for companies as well as investors. Let us find out which stock offers a better risk/reward equation for TFSA investors.

BCE

It is highly unlikely that dividend investors can go wrong if they pick BCE, which runs Canada's largest telecom network. BCE stock has been one of my favourite dividend stocks for various reasons.

First, it offers a juicy dividend yield close to 5%, which is hard to ignore in an environment when alternative investments are not even paying half of this return.

Second, BCE generates hefty margins due to its dominant position in the Canadian telecom market. This attribute makes BCE one of the most sought-after cash cows by income investors.

Last year, BCE distributed 84% of its free cash flows to investors in the form of dividends. And these dividends have been rising each year.

During the past decade, BCE's payout has more than doubled to a quarterly payout of $0.72 a share. On a total-returns basis, a $10,000 investment in the company a decade ago would be worth more than $31,000 today, including reinvested dividends.

In its latest earnings report, BCE added 117,182 net postpaid wireless subscribers — the highest volume in its third quarter in five years and above analysts' expectations of 111,000.

That performance helped the company beat analysts' profit estimate, making $770 million in the three months ended Sept. 30 — up 2.4% when compared to the same period a year ago.

Shaw Communications

Shaw is relatively new player, targeting to grab the market share in the crucial wireless segment, where the most growth is taking place.

Many telecom analysts believe Shaw will play the role of disruptor as it solidifies its position by improving the quality of its network and offering lucrative discounts. Shaw management is targeting to capture at least a quarter of the Canadian wireless market through its Freedom Mobile network.

In the most recent earnings report, Shaw posted a robust growth in its wireless segment, adding 41,014 subscribers in the fourth quarter, pushing revenue 16% higher from the business.

On the dividend side, Shaw stock offers a 4.16% yearly dividend yield, which translates into a monthly payout of $0.9875 a -share.

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Which one is better?

I like both Shaw and BCE for long-term and patient investors, whose main goal is to earn stable dividend income. For the short term, however, Shaw stock offers better value after its underperformance during the past six months.

Alternatively, you can equally divide your position between these two players to benefit from Shaw's growth potential and BCE's dividend yield.

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2. NYSE:SJR (Shaw Communications Inc.)
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