Dividend Investors: Is BCE Inc. or Bank of Montreal a Better TFSA Pick Today?

Description

Canadian savers and income investors are searching for top-quality stocks to hold inside their self-directed TFSA accounts.

The move makes sense, as any income earned inside the TFSA is protected from the taxman. This means income investors can pocket the entire amount of their dividends, while long-term investors who are using the TFSA as part of their retirement planning can use the full value of the payouts to purchase more shares.

When the time finally comes to cash out, any increase in the share price is also yours to keep.

Let's take a look at **BCE Inc.** (TSX:BCE)(NYSE:BCE) and **Bank of Montreal** (TSX:BMO)(NYSE:BMO) to see if one deserves to be in your portfolio.

BCE

BCE bought Manitoba Telecom Services and launched a new low-cost mobile business in 2017. It also closed the purchase of AlarmForce earlier this year.

The new businesses strengthen the company's dominant position in the Canadian communications market, providing a solid base in central Canada as well as expanding the mobile offering across the country and adding a suite of new security and safety products for its residential customers.

The stock has taken a hit since December, falling from $63 per share to $55 on concerns that higher interest rates could boost borrowing costs and put a pinch on cash flow available for distributions. There is also a theory that funds could exit go-to dividend stocks such as BCE in favour of fixed-income alternatives.

The points are valid, although the pullback appears to be a bit overdone.

BCE continues to grow, albeit slowly, and generates adequate free cash flow to support its generous payout. At the time of writing, the stock provides a yield of 5.5%.

BMO

Bank of Montreal has a balanced revenue stream with strong personal and commercial banking, wealth management, and capital markets operations. The large U.S. division, which includes about 500 branches, serves as a nice hedge against any potential downturn in Canada.

Bank of Montreal has paid a dividend every year since 1829, and the steady trend of rising distributions should continue in line with earnings growth. The current payout provides a yield of 3.8%.

Rising interest rates could force some homeowners to default, but Bank of Montreal's mortgage portfolio is capable of riding out a downturn. Insured mortgages represent about half of the loans, and the loan-to-value ratio on the rest is just 54%. Overall, higher interest rates tend to be good news for the bank and its investors.

Is one more attractive?

Both stocks should continue to be solid buy-and-hold picks for a TFSA dividend fund. Right now, BCE looks oversold, while Bank of Montreal might be a touch expensive. The bank trades at 13.7 times trailing earnings, which is higher than its three larger peers.

If you only choose one, I would probably go with BCE today.

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