



## Here Is Why You Should Bet on These 2 Dividend Stocks in May

### Description

Debates over Canadian competitiveness are all too common over the course of election campaigns here at home, but the U.S. Tax Cuts and Jobs Act has inspired corporate leaders to be more vocal on policy in 2018. The promise of tax reform south of the border sparked a bonanza on Wall Street in 2017. Major U.S. banks and corporations have [moved quickly to reward shareholders](#) in early 2018, as tax reform boosted earnings.

**Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) CEO Dave McKay said in March that tax reform had resulted in capital flight. “Our competitiveness in the world continues to be a topic of debate in Canadian business,” McKay said to the Canadian Club of Montreal. “The U.S. has moved the yardsticks. So has China, in a different way. It’s clear we can’t afford to stand still.”

It is not just corporate taxes that concern McKay, but skill development and basic infrastructure he sees as lacking. Investment in infrastructure is popular across the political spectrum, but governments in the U.S. and Canada have both [struggled to satisfy campaign promises](#) in this area.

In May, **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)) CEO Don Walker drew attention to what his company claimed was the rising cost of business in Ontario relative to its U.S. competitor. “It’s going to be very difficult — if these things remain — that our plants in Canada can competitively quote against other plants in other jurisdictions that don’t have all these burdens on them,” Walker said recently. He was explicit in his criticism of Ontario, pointing to high debt levels, taxes, labour legislation, and the “inefficient” government.

Magna CFO Vincent Galifi said that after-tax returns are now greater in the United States after tax reform was passed. The company could end up pursuing more activity in the United States, especially in light of new rules that could emerge in a “modernized” NAFTA.

### Both companies could reap the rewards of this calculated push

Unless you have been sleeping under a rock in Ontario, you know that we are in the midst of a contentious election. Doug Ford’s progressive conservative party currently enjoys a sizable lead in the polls and has vowed to cut Ontario’s corporate income tax to 10.5% — down from its current 11.5%

rate. Ford and his PCs have hinted at plans to tackle regulations in Ontario as well.

Canadians are also gearing up for what promises to be a fiery federal election in 2019. As usual, the economy will take centre stage.

Magna experienced a significant benefit from the U.S. Tax Cuts and Jobs Act. Diluted earnings per share rose 21% year over year to \$1.83 due to higher income from operations and the lower income tax rate. Adjusted diluted earnings per share climbed 20% from the prior year.

Royal Bank took a hit from a write-down due to U.S. tax reform to the tune of \$178 million. However, this one-time charge will be a welcome early hit considering the long-term boon from the dramatic slash in corporate taxes. The bank is set to release its second-quarter results on May 24.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. NYSE:RY (Royal Bank of Canada)
3. TSX:MG (Magna International Inc.)
4. TSX:RY (Royal Bank of Canada)

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