Which Is the Better Buy: Toronto-Dominion Bank (TSX:TD) or BCE Inc. (TSX:BCE)?

Description

If you're looking for stable, long-term returns, more often than not you'll be looking at some of the highest-cap stocks on the index. Today, I'm going to look at two of the largest, most well-known stocks: **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) and **BCE Inc.** (TSX:BCE)(NYSE:BCE) and assess which one is the better investment.

I'll look at several factors, including financial performance, outlook, and current valuation.

How have the companies performed recently?

In its most recent quarter, TD continued to show strong growth, with net revenues rising 11% from last year and profits improving by more than 17%. Over the past five years, TD has also averaged an impressive 26% profit margin and has grown its top line by 33% during that time.

BCE has had a bit of a tougher time growing its sales, as revenues were up just 4% in the company's most recent quarter. Since 2013, sales have grown by just 11%, averaging a compounded annual growth rate of only 2.7%. However, the company has been able to shed some of its costs, as profits have risen by nearly 40% during that time and BCE has averaged a strong profit margin of over 12%.

Which company has the better outlook?

For TD and other banks, rising interest rates will certainly raise default risk for many customers, but it will also mean higher revenues and more of a potential spread for the bank to take advantage of. The bank's large presence in the U.S. will also allow it to take advantage of tax reforms that were passed late last year, as that too will help pad TD's bottom line.

BCE continues to face challenges as cord cutters look to ditch conventional cable and opt for online streaming options instead. While the company has tried to develop new products in an effort to keep customers, and its CraveTV service to try to capture some of that audience, the results have proven that more still needs to be done.

There's a lot of potential for TD to continue to grow its financials, especially as the economy continues to do well. BCE, however, faces more of an uphill battle.

Which stock provides better value today?

Year to date, TD's stock has risen just 3%, but over the past year it is up more than 16%. Like many of its peers, it trades at a modest multiple of less than 14 times earnings and twice its book value. It's a good price for a stock that also pays investors a dividend of 3.5% every year, and one that's likely to continue to rise over the years as well.

BCE has struggled in 2018, declining more than 7% since the start of the year as investors in general have been a bit bearish on telecom stocks. The benefit for dividend investors is that BCE's dividend is now yielding 5.5%, and it too has seen regular increases over the years. BCE's stock is a bit more expensive than that of TD, trading at around 18 times earnings and three times book value, although those multiples are below that of its peers.

Bottom line

Although TD offers a lower dividend, it wins in all the major areas against BCE. If you can only invest in one stock today, then TD would be the better option. However, either stock would still offer you a lot of value for your money.

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