Income Investors: Should You Own BCE Inc. (TSX:BCE) or Suncor Energy Inc. (TSX:SU) Stock Today?

Description

Income investors are finally getting an opportunity to pick up some of Canada's top companies at reasonable prices.

Let's take a look at **BCE** (TSX:BCE)(NYSE:BCE) and **Suncor Energy** (TSX:SU)(NYSE:SU) to see if one deserves to be in your portfolio.

BCE

BCE is down from close to $65 per share last November to about $53.50 at the time of writing. That puts the yield on the current dividend at an attractive 5.6%.

Investors who'd bought at the top probably aren't overly impressed right now, and new investors have to decide if the pullback is overdone or just getting started.

Fans of the stock look at the company's wide moat in the Canadian communications industry and see an opportunity to pick up a rock-solid payout that should continue to increase at a modest, yet steady pace. Bears say rising interest rates and slow growth will trigger a flight to fixed income and result in an even lower multiple.

BCE reported Q2 2018 revenue growth of 1.7% and EBITDA growth of 2% compared to Q2 2017. The company confirmed its 2018 guidance of adjusted earnings-per-share growth of 1-4% and free cash flow growth of 3-7%.

BCE raised its dividend by 5% for 2018, and investors should see gains match improvements in free cash flow in the coming years. The company has the ability to raise internet prices when it needs extra cash and is rolling out security products and services for homeowners that should help bump up average monthly revenue going forward. On the mobile side, people continue to consume more data, which should support higher bills, and while **Shaw** is ramping up to be the fourth major player in the mobile sector, Canadians shouldn't expect to see prices fall significantly.

Suncor

Suncor’s diversified revenue stream makes it somewhat unique in the Canadian oil patch. The company is a major oil sands producer, but it also owns four large refineries and more than 1,500 Petro-Canada retail locations.

Suncor entered the oil downturn with a war chest of cash and used the funds to scoop up distressed assets at attractive prices. Now that the energy sector is on the mend, Suncor is reaping the benefits.

Operating earnings for Q2 2018 came in at $1.19 billion, or $0.73 per share, compared to $0.12 per share in the same period last year. Funds from operations were $2.862 billion, or $1.75 per share, compared to $1.627 billion, or $0.98 per share.

Production jumped from 539,000 barrels of oil per day (bbls/d) to 662,000 bbls/d. Suncor completed its Fort hills and Heron projects near the end of 2017, and both facilities are ramping up to capacity output ahead of schedule.

With oil prices improving and major capital projects complete, cash flow available for distributions should be strong in the coming years.

Suncor raised its dividend by 12.5% for 2018, and investors could see an equal or better increase next year. At the time of writing, the quarterly dividend of $0.36 stock provides a yield of 2.8%.

The shares have pulled back a bit after hitting a new all-time high. At the time of writing, Suncor trades for $51.50.

Is one more attractive?

Suncor probably offers more upside opportunity for both dividend growth and stock appreciation. If you think the oil recovery has legs, the energy giant is probably the better bet today.

However, BCE is now down to the point where the stock looks tempting. Rising interest rates are a headwind, and growth isn’t robust, but BCE should hold up well when the broader market hits its next rough patch.

I would probably split a new investment between the two companies today for an income-focused portfolio.

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