New Investors Still Think These 2 Dividend Stocks Are the Same Quality: They're Not

Description

The following two stocks often get mentioned in the same breath when traditional investors in Canadian stocks talk about defensive dividend payers. Both stocks are seen to be dependable, healthy, good value, and a stable source of passive income with some growth ahead. This is exactly what traditional long-term investors are looking for at the moment: solid stocks that provide a few extra quid for no extra effort, are good value for money, and represent the best of Canadian industry.

However, the data tells a somewhat different story about these two stocks. While both are solid performers and pay decent dividends, one is of considerably better quality than the other. Here, we will go through the two stocks looking at key indicators of stability, growth, income, past performance, and liability. With one banking stock and one transport and infrastructure stock in the mix, will we come out with two strong buys or just one?

Toronto-Dominion Bank (TSX:TD)(NYSE:TD)

A market cap of $141 billion makes Toronto-Dominion Bank (TD Bank) one of the TSX index's heaviest hitters — and a strong contender for the defensive dividends section of your portfolio. A P/E ratio of 13.1 times earnings beats the market, though some may be surprised that this moderate ratio actually trails the Canadian banking sector by a few points.

An annual income growth of 9.1% is projected for the next couple of years, which makes it a perfect stock for the discerning dividend investor who knows that growth is a must. A one-year past earnings growth of 10% exactly matches the industry average for the same period, but trails slightly its own five-year average past earnings growth of 10.3%.

A dividend yield of 3.48% may seem lower than some new investors may be expecting, but it's a fact that the Big Five are not the highest dividend payers on the **TSX/S&P Composite Index.** What they do offer, though, is a reliable passive income and a fair amount of stability.

In terms of liabilities, TD Bank is sitting on an acceptable proportion of non-loan assets, and has a sufficient tolerance for bad loans; the latter is something that few big Canadian banks can boast of, putting TD Bank ahead of the game if you happen to be a low-risk investor.

Canadian National Railway (TSX:CNR)(NYSE:CNI)

A market cap of $85 billion is obviously large enough to give your portfolio a bit of backbone; however, it's much lower than TD Bank's, so that's strike one. What we are looking for here are signs that Canadian National Railway cannot contend with TD Bank on quality, and this is our first bit of evidence.

Moving on to valuation, it appears that Canadian National Railway is going to come through: a P/E of 15.5 times earnings doesn't look bad on the face of it. However, you may want to dig deeper if you are concerned about value. A P/B ratio of five times book is closer to the truth.

If you need to confirm this, go and look at other relevant pieces of data, such as an overvaluation relative to future cash flow value of about double. In other words, Canadian National Railway is *not* good value at all. Strike two!

A one-year past earnings growth of 43.9% looks great next to TD Bank's 10%. But let's talk about *comparative growth* for a moment: TD Bank's one-year growth matches its market exactly; meanwhile, however, Canadian National Railway's one-year growth, while impressive, in no way touches the Canadian transportation industry average of 183.4% for the same period.

Canadian National Railway's five-year average past earnings growth of 14.6% is much closer to the industry's 18.8% for the same period, though, so let's cut this stock some slack and just say that it simply didn't manage to match the industry's runaway year.

A debt level of 68.4% of net worth signals that this stock is not as healthy as TD Bank (strike three! Out!), while a low dividend yield of 1.55% is perhaps the main reason the two stocks shouldn't be mentioned in the same breath.

The bottom line

Both stocks have a bit of growth, with TD Bank looking at almost 10%, and Canadian National Railway looking at just over half of that. They're both sturdy enough tickers, and if you want to add shares in either company to your portfolio to strengthen your dividend section then you could do far worse. TD Bank is the stronger of the two choices if you're talking defence, as well as overall health, however.

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