Should You Choose BCE (TSX:BCE) or Fortis Inc. (TSX:FTS) for Your TFSA?

Description

Canadian investors are searching for quality stocks to add to their TFSA portfolios.

Some people use the TFSA to hold dividend stocks to generate a source of tax-free income, while others use it as a retirement savings fund. In this case, dividends can be invested in new shares to take advantage of the compounding process and help increase the portfolio over time.

Let's take a look at **BCE** (TSX:BCE)(NYSE:BCE) and **Fortis** (TSX:FTS) (NYSE:FTS) to see if one deserves to be a top TFSA pick right now.

BCE

BCE is a giant in the Canadian communications market, and while growth is modest, the stock deserves to be on your TFSA radar.

BCE reported 3.2% revenue gains and a 2.2% increase in adjusted EBITDA for Q3 2018, compared to the same period last year. Net earnings rose 2% to $861 million and adjusted earnings per share improved 5.5% to $0.96.

The company continues to roll out its fibre-to-the-premises program and the huge investments are paying off in strong subscriber growth. The company added 266,000 new mobile, internet, and TV customers in the quarter, representing a year-over-year increase of 41.5%.

On the cost side, BCE is slimming down the management ranks. The company reduced its management workforce by 4%, or 700 positions over the four months preceding the end of the quarter, which should result in annualized savings of $75 million.

Despite the big capital expenditures on the network upgrades, BCE generated free cash flow of $1.01 billion in the quarter. This is important for dividend investors because BCE raises its dividend based on its level of free cash flow growth.

For 2018, the company remains on track to deliver a year-over-year free cash flow gain of 3-7%. The dividend payout remains within the 65%-75% guideline, so the distribution should continue to increase.

The stock has bounced off the 2018 lows, but still appears attractive. At the time of writing, investors can pick up a yield of 5.4%.

Fortis

Fortis has also picked up a nice tailwind in recent weeks. The stock is back up to $46 per share after a dip down to $41 in October.

The rally is part of a general flow of money back into utility, pipeline, and telecom stocks in recent weeks. Fortis also came out with solid Q3 numbers and strong guidance.

The company reported adjusted Q3 2018 earnings of $65 per share, compared to $0.61 per share for the same period last year.

The news that has spurred the surge might be the size of the capital program. Fortis now plans to spend $17.3 billion over the next five years on investments that should increase the rate base to above $35 billion by the end of 2023. It currently stands at $26 billion.

As a result, management intends to increase the dividend by 6% per year over that timeframe. That’s pretty good forward guidance.

The existing payout provides a yield of 3.9%.

Is one more attractive?

BCE and Fortis should both be solid buy-and-hold picks for a dividend-focused TFSA.

If you only buy one, I would probably choose Fortis. The dividend-growth will likely outpace that of BCE in the medium term, and the company gives investors good exposure to the United States through its large American utility businesses that were acquired in recent years.

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