Better Dividend Stock: Toronto-Dominion Bank (TSX:TD) or BCE Inc (TSX:BCE)?

Description

TD Bank (TSX:TD)(NYSE:TD) has long been a favourite of Canadian dividend investors. Offering steady earnings growth, a moderately high dividend yield, and consistent payout increases, it's one of the most reliable income producers out of all TSX stocks. But as a dividend play, TD does have one disadvantage: the yield is not that high right now. At the time of this writing, it was about 3.7%, which is certainly better than bank interest, but not exactly among the upper tier of TSX dividend stocks.

Enter **BCE** (TSX:BCE)(NYSE:BCE). BCE is best known as the parent company of Bell Canada, one of the nation's biggest cell phone and internet service providers. The company also owns and operates a media arm, which includes the popular CTV Television Network. With a dividend yield around 5.50% as of this writing, it easily bests TD on income. But does that make it a better buy overall? First, let's compare the two stocks in terms of their returns.

Historical performance

Both TD and BCE have been strong performers so far this year. However, TD has the edge in this category, with an 8.7% return compared to BCE's 4.4%. The reverse is true if we expand the time frame to 12 months: over that period, both stocks are down slightly, but TD is down more at 1.93%. Zooming out even further to five years, TD regains the upper hand, with a 50% gain compared to BCE's 20%. Overall, looking at both short- and long-term time frames, it appears that TD has outperformed BCE. But past performance doesn't necessarily indicate future performance. To understand whether the future trend will resemble the past, we'll need to take a look at fundamentals.

Fundamentals

Both TD and BCE have solid fundamentals, with healthy profit margins, returns on equity, and growth. However, again, TD has the advantage. TD's profit margin in its most recent quarter was 30%, compared to BCE's 12.45%. TD's ROE was also just a tiny bit higher at 14.6% compared to 14.45% for BCE. The biggest advantage TD has over BCE is growth: whereas TD grew earnings at 9.9% in its most recent quarter, BCE crawled along at 2.2% (adjusted EBITDA).

So far, it's not hard to see why TD has been beating BCE in the markets: its fundamentals are better. But this is, after all, an article about dividend stocks. So, before handing TD the gold, we should ask whether BCE's dividend is enough to push it ahead.

Dividend income and growth

In terms of short-term income potential, BCE easily beats TD with a 5.50% yield compared to the latter's 3.7%. But I stress "short term." If you're going to buy and hold, what you should be looking at is not the dividend today but where it could be tomorrow. Unfortunately for BCE investors, it looks like TD takes the gold in this category, too. With an average five-year dividend-growth rate of 9.4%, it's well ahead of BCE's 5.10% average increase. This means that although TD shares yield less than BCE now, the former's payout will likely be higher than the latter's in a few years — assuming past trends persist into the future.

On the whole, TD wins this round.

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