Forget BCE Inc. (TSX:BCE) and Telus (TSX:T): Buy These 2 Superior Dividend Stocks Instead!

Description

The days of big dividends and capital gains from the Big Three Canadian telecoms appear to be coming to an end. Rising competition, high capital investment requirements, regulatory hurdles, and depreciating legacy assets are just some of the issues that'll make it tough for the Big Two, **BCE** (TSX:BCE)(NYSE:BCE) and **Telus** (TSX:T)(NYSE:TU), to support the astounding total returns they've consistently delivered in the past.

Instead of betting on either telecom behemoth given the less favourable environment that lies ahead, I'd look to **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) and **Fortis** (TSX:FTS)(NYSE:FTS) instead for better results over the next five years. Unlike BCE and Telus, which may have little in the way of capital gains and a potentially lower rate of dividend growth moving forward, both Shaw and Fortis have more promising growth runways with a fewer number of headwinds.

In a prior piece, I highlighted BCE's bloated asset base and its massive size as contributing factors for why the company's growth will be stunted over the next few years, warranting a more significant correction to its shares.

Telus, a smaller but still large telecom ($29 billion market cap vs. BCE at $53 billion), still has limited agility compared to the likes of Shaw, a telecom that's moving into Telus' turf on the west coast. Indeed, the west won't be won easily be either competitor as price undercutting and aggressive promos take-off as they have in the U.S. telecom market.

Shaw

A natural alternative to the Big Two would be to go with the fourth wild card telecom that's playing the role of the disruptor. While Shaw is an underdog today, it has far more room to run relative to its peers and regulatory benefits (regulators want to foster competition in the telecom scene) that I believe many analysts are discounting.

Shaw has a 4.3% dividend yield, which is slightly lower than its Big Two peers, but unlike the Big Two, Shaw's expected to post far better capital gains as it grows its rapidly-growing wireless subscriber base.

If you own a Big Two telecom, I consider Shaw an essential hedge for those feeling reluctant to dump BCE or Telus because of their high dividend payouts.

Fortis

With a dividend yield of 3.62%, Fortis is the perfect bond proxy, and although the yield is nearly 2% lower than that of a telecom, investors would be comforted to know that the company will be growing at a constant mid-to-high single-digit multiple every single year with 5% of dividend hikes pretty much set in stone for the near future.

With a wide moat and a highly regulated cash flow stream, investors can sleep comfortably at night knowing that an up-and-coming competitor won't derail the long-term growth thesis. Moreover, as volatility becomes the norm in the markets again, the price of admission at Fortis will go up substantially, likely leading to substantial capital gains for patient investors.

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