



BCE (TSX:BCE) vs. Telus (TSX:T): Which Telecom Stock Is Better for a TFSA?

Description

If you're a buy-and-hold investor using your Tax-Free Savings Account (TFSA) to generate a solid passive income, then Canada's telecom stocks offer one of the best avenues.

The reason I like [telecom utilities](#) is that they are cash cows. These companies, which provide telecom infrastructure to millions of customers, have already spent billions of dollars on their networks, and it's very hard to break their dominance.

In Canada, we have four players that control most of the market while operating in an oligopoly environment. Today, we compare **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) and **Telus** ([TSX:T](#))([NYSE:TU](#)) to see which stock offers a better value to TFSA investors.

BCE

BCE is Canada's largest telecom operator with huge infrastructure and spending power to grow its business. While speaking at the shareholder conference this month, BCE president and CEO George Cope said BCE will invest about \$4 billion of capital to expand its network this year.

For the next five years, BCE plans to spend \$20 billion of capital investments as part of the company's six strategic imperatives established about a decade ago. He said Bell is about halfway to reaching its strategic goal of connecting "every single home and every single business that we can get to economically with fibre (optics) right to the premises."

This leading position in the industry means TFSA investors will continue to benefit, as the company rewards its investors with higher payouts each year. BCE's overall profit for the first quarter ended March 31 was up 12% from a year earlier, as overall revenue improved by 2.6% to \$5.73 billion.

Trading at \$61.09 and with an annual dividend yield of 5.29%, BCE pays \$0.7926 a share quarterly dividend, which has been growing about 5% per year during the past decade.

Telus

No doubt, Telus is a smaller player than BCE, but its growth momentum has been excellent in recent years. One big reason that makes this stock attractive is that the company has already made major investments to improve its network. Investors believe the operator is in a much better position to return cash to shareholders in the form of dividends.

[Telus is targeting 7-10% growth](#) in its dividend each year until 2022. And given the company's ability to generate more cash from its growing customer base throughout Canada, this target does not seem too ambitious.

Telus said early this month that wireless service revenue in the first quarter increased by 1.4% to \$1.49 billion compared with a growth rate of 4% in the same period last year.

To keep profit growing and support that shareholder payout, the company is targeting higher-value subscribers and counting on keeping costs under control at its wireless division.

With a current dividend yield of 4.42%, Telus pays a quarterly dividend of \$0.545 a share, which translates into \$2.18 per share annually. This year was the 16th straight year in which Telus hiked its annual dividend.

Which stock is a better buy?

I like both BCE and Telus for TFSA investors. One stock is more mature, while other is on a higher growth trajectory. Interested investors can equally divide their investment to have some exposure to both stocks, but if I have to choose between the two, I would go for BCE due to its dominant market position and higher dividend yield.

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2. NYSE:TU (TELUS)
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Date

2025/08/25

Date Created

2019/05/24

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