Better Buy: BCE (TSX:BCE) or Shopify (TSX:SHOP)?

Description

After a big move in the stock this week, **Shopify** (TSX:SHOP)(NYSE:SHOP) recently surpassed a $56 billion market capitalization, putting it in the top 10 most valuable companies in Canada.

The company it knocked out of the top 10 was none other than **BCE** (TSX:BCE)(NYSE:BCE), one of Canada's oldest and most mature companies.

These two companies couldn't be more different. One is an unprofitable growth machine, with a demonstrated record of growing revenue by at least 50% per year for a number of years now. The other is as boring as it gets, barely increasing revenue each year while it pays out fat dividends to investors.

Yet there's an argument for having each stock in your portfolio. Let's take a closer look at each to determine which one you should be buying today.

Shopify

Shopify is perhaps Canada's top growth stock. Bulls don't see that growth slowing down either.

Shopify's core business is connecting retailers with customers through the internet. The company creates tools that let entrepreneurs easily create their own website, process payments, manage inventory, and get their products listed with other top retailers. Its platform powers some 500,000 websites and is quite affordable for an entrepreneur just starting their online business.

Not content to stop there, the company has announced some interesting expansion efforts of late. It now offers financing programs for small businesses, a fulfillment network that will use regional warehouses to lower shipping costs for merchants, and point-of-sale software to help brick-and-mortar retailers manage their businesses.

As CEO Tobi Lütke puts it, "it should be easier than ever to start a business, but entrepreneurship is still too hard. Our job is to keep innovating on behalf of entrepreneurs so they can compete in an everchanging retail landscape."

There's just one problem: Shopify's stock is incredibly expensive. The company essentially breaks even, and it's likely serious profitability is still years away. This translates into Shopify being a sentiment stock. As long as sentiment is good, shares should keep marching higher. But if sentiment turns, look out below.

BCE

Deep down, BCE and Shopify sort of do the same thing — just for different groups of customers. Shopify connects retailers with customers. BCE connects everyone with everything online. Both specialize in bringing people together over the internet.

The big difference is, BCE's business is much more mature than Shopify's. But that doesn't mean the provider of wireless, television, internet, and home phone services is just content to sit back and process monthly payments from its many customers. It is investing in the next wave of technology, like upgrading wireless data speeds from 4G to 5G.

Ultimately, BCE's version of connecting people is incredibly profitable. The company is projected to earn $3.55 per share in profits in 2019, with the bottom line increasing to $3.74 per share in 2020. It must invest into the future of its business, but free cash flow is consistently robust. And since the company is a big player in a mature market, it's able to ensure steady — albeit unspectacular — growth by slowly raising rates to customers.

For many BCE investors, the whole reason to put cash into the company is for the stock's generous 5.1% dividend. BCE has delivered a history of consistent dividend growth, and investors should be able to expect 5% annual raises in the payout over the long term.

Which should you buy?

Shopify offers the better long-term return potential. But it also comes with much more risk. If the company's growth numbers start to disappoint, investors could move en masse to the next big thing. This could translate into a 30-50% loss virtually overnight.

BCE shares are not going to double over the short term. But the stock offers the potential for 8-10% annual returns over the long term with only a minimal chance of a big short-term decline. It's the choice for boring investors who are willing to sacrifice some potential returns for more predictable results.

Personally, I'm a BCE man. I admire Shopify's growth, but I don't want to be anywhere near that stock when the market falls out of love with it.

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nelsonpsmith