
# TFSA Investors: Should You Buy BCE (TSX:BCE) or Royal Bank (TSX:RY) Stock Today?

## Description

Canadians are using their TFSAs to create self-directed retirement portfolios.



Retirees can benefit from holding dividend stocks that generate a stream of distributions that are not counted toward annual income. This is of particular interest for seniors who are at risk of being hit with an OAS clawback.

Younger investors can take advantage of the tax-free status to grow investments without worrying that they will have to give part of the gains to the CRA when they cash out the funds.

Let's take a look at **BCE** (TSX:BCE)(NYSE:BCE) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see if either deserves to be on your TFSA buy list right now.

# BCE

BCE has a reputation among retirees for being a solid dividend pick and that trend should continue.

The TSX Index giant has expanded its reach from basic telecom services to being a full-blown communications company with a media division that feeds content to the wireless and wireline customers who subscribe to mobile, TV, and internet services.

The evolution of the communications industry now has Canadians demanding real-time access to all their favourite content through multiple devices. BCE has invested billions of dollars in network upgrades to ensure it can provide the broadband needed to meet the growing demand for data.

The wireless business is adding new subscribers at a steady pace and BCE is widening its competitive moat by installing fibre-optic lines directly to homes and businesses. This helps the company retain its customers while providing opportunities to secure new lines of revenue in areas such as home security and remote monitoring.

BCE reported decent results for Q3 2019 and is on track to hit all of its financial goals for the year. This includes an increase in free cash flow of 7%–12% compared to 2018. As a result, investors should see another 5% dividend increase in 2020.

BCE's current payout provides a yield of 5%.

## Royal Bank

**Royal Bank of Canada** (TSX:RY)(NYSE:RY) is best known for its Canadian operations and the bank generates 62% of its revenue in the country. However, Royal Bank is actually a global financial institution with a presence in 36 countries. The U.S. accounts for 23% of revenue and other international units kick in 15%.

The income stream is also balanced out by segment. Royal Bank's personal and commercial banking businesses provide 49% of total profits. These activities tend to be the most stable and are are widely referred to as retail banking.

Royal Bank's wealth management operations contribute 21% of profits. The group received a boost after the US$5 billion acquisition of California-based City National in late 2015.



Capital markets activities provide 21% of the bank's profits, while insurance adds 7%, and investor and treasury services fills in the final 5%.

The bank is very profitable, with a fiscal Q3 return on equity of 16.7% and net income in the quarter of $3.3 billion.

Royal Bank has a high common equity tier 1 ratio of 11.9%, meaning it is well capitalized to ride out a downturn in the economy.

As one of the planet's 15 largest banks by market capitalization, Royal Bank has the financial clout to compete on the world stage and has the financial capacity to invest the capital needed to develop essential digital banking platforms.

The board generally raises the dividend in line with earnings-per-share growth. This is expected to be 7%–10% per year over the medium term.

Investors who buy today can pick up a 3.8% yield.

## Is one more attractive?

Royal Bank and BCE should both be solid buy-and-hold picks for a TFSA retirement fund. A few months ago I would have made Royal Bank the first choice, but the stock has since rallied to new highs and now appears fully valued.

As such, I would probably split a new investment between the two stocks today.

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