TFSA Investor: A Top Dividend Stock to Own if the BOC Cuts Rates in 2020

Description

The Bank of Canada (BOC) just decided to keeps its key interest rate unchanged at 1.75%, once again bucking the trend over the past year among major developed economies.

The decision was not unexpected. Inflation in November and December came in at 2.2%, which is above the 2% target rate set by the BOC. In an environment where the central bank thinks inflationary pressure would continue a rate hike would be expected, but Stephen Poloz, the BOC governor indicated in his comments that slack in the economy could deflate the inflationary pressures.

Some pundits have even argued that a slowing economy could justify a rate cut. The U.S. Federal Reserve cut rates three times in 2019 while the BOC held firm.

Poloz might be getting ready to finally make a move. He sent a small shock wave through the system when he said the door is open to a rate cut in the event the economic conditions worsen, and said that he would prefer not to reduce rates any further, as that would potentially push the housing market into overdrive, potentially leading to an additional debt binge by Canadian consumers.

Based on the reaction in the stock market, investors are betting on a rate cut in the coming months. The **TSX Index** jumped to a new high on the governor's comments and bond yields dropped. The Canadian dollar also slipped against the greenback.

Which stocks should you buy?

The prospect of lower interest rates bodes well for dividend stocks as they become more attractive compared to GICs and other fixed-income alternatives, which tend to see yields drop when interest rates decline.

Let's take a look at one top Canadian dividend stock that might be an interesting pick right now for your TFSA.

Telus

Telus (TSX:T)(NYSE:TU) is one of Canada's leading communications companies with wireless and wireline networks providing customers across the country with mobile, internet, and TV services.

Telus has a long track record of dividend growth. The company raised the payout when it reported Q3 2019 results, representing the 18th increase to the distribution since 2011. Telus is targeting ongoing annual dividend increases of 7-10% through 2022.

Free cash flow is expected to increase in the next two years amid steady revenue growth and lower capital expenditures. Telus is past the peak of a multi-year network build-out and the reduced investment level should free up more cash for shareholders.

Lower interest rates are also good news. Telus uses debt to fund its capital programs, and falling borrowing costs mean more money is available to boost the dividend.

Telus continues to add new wireless and wireline customers. Wireless net additions rose 13% in Q3 2019 and the wireline group added 53,000 new internet, TV, and security clients.

The security segment offers strong growth potential for Telus and its peers as homeowners and businesses embrace new remote monitoring technology.

Telus also has a growing health division. Telus Health is Canada's leading provider of digital solutions to hospitals, doctors, and insurance companies. Digital disruption in the healthcare industry is ramping up and Telus is leading the way in the domestic market.

Should you buy?

Telus has a long history of generating solid returns for investors and that trend should continue.

If you are searching for a dividend pick to take advantage of potential interest rate cuts by the Bank of Canada, this stock deserves to be on your radar.

CATEGORY

1. Dividend Stocks

TICKERS GLOBAL

1. NYSE:TU (TELUS)
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Author
aswalker