Royal Bank of Canada (TSX:RY) vs Telus (TSX:T): Which Stock Is a Better Buy?

Description

Royal Bank of Canada (TSX:RY)(NYSE:RY) and **Telus Corp** (TSX:T)(NYSE:TU) are two of the best-regarded dividend stocks in Canada. Both have high yields. Both have been raising their payouts. And both operate in industries with high barriers to entry that provide natural economic moats. Shareholders in both companies have been rewarded with substantial and growing income over the years.

On closer inspection, though, it becomes apparent that there are major differences between these two stocks. Royal Bank is one of Canada's oldest companies, while Telus is a relative newcomer. As you might expect, the latter has considerably more growth potential, but there's more to the story than that.

As you're about to see, Telus and Royal Bank have vastly different financials, which could impact their future earnings and dividends. So without further ado, let's take a deep dive into Royal Bank and Telus, to determine which stock is better for a high-yield dividend investor.

Financial health

Before comparing Telus and Royal Bank's financials, it's important to know that financial metrics for banks are a little peculiar. Banks tend to have extraordinarily high liabilities from deposits; however, these liabilities are typically more than offset by loan income, so it's not as big a concern as it would be for other types of companies. Consequently, metrics like the debt-to-equity ratio aren't normally used to value banks.

However, there are some metrics by which Telus and Royal Bank are comparable. They both have solid returns on equity (ROE), but Telus' is slightly higher at 16.9%. Both companies have fairly *low* returns on assets, although Telus again comes out with the win at 5%. Both companies have fairly high profit margins, but Royal Bank's 29% beats Telus' 12%. Royal Bank also wins for its dividend payout ratio, which comes in at just 46% compared to 76% for Telus.

Growth metrics

As we saw in the previous section, Royal Bank and Telus both have their respective advantages and disadvantages in terms of financial health. It's a similar picture when we look at growth metrics. Both companies' revenue crawled along in the most recent quarter, with Telus' up 2% and Royal Bank's up 5%. Both companies also saw their earnings decline slightly in the most recent quarter. However, Telus has better *long-term* growth, with its earnings up 40% over the past four years versus only 10% for Royal Bank.

Dividend potential

Now we get to the meat and potatoes of the comparison: *dividends*.

Royal Bank and Telus aren't even remotely similar as companies, so most investors interested in both are probably dividend-oriented investors looking for high yield.

In this respect, Telus is the clear winner.

Not only does it have a higher yield (4.37% to Royal Bank's 4%), it also has a higher historical dividend growth rate, with 7.5% CAGR dividend growth over the last five years. So Telus wins on both of the big metrics that dividend investors are interested in.

That seems like an open and shut case, but it's important to remember that Royal Bank has a lower payout ratio, so it has more room to increase its dividend without corresponding earnings growth. Overall, though, Telus is probably a slightly more promising dividend play than Royal Bank.

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