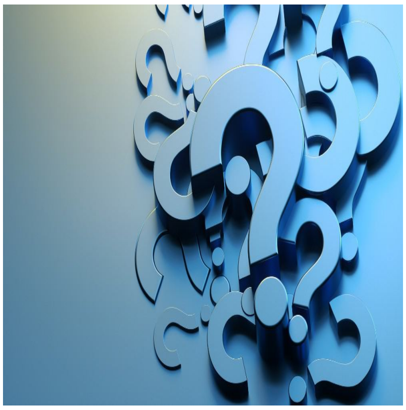


BCE (TSX:BCE) and TELUS (TSX:T): Which Is a Better Dividend Stock to Buy Today?

Description

Telecom stocks have been darlings in dividend stock portfolios. It's hard to ignore when the likes of **BCE** (TSX:BCE)(NYSE:BCE) and **TELUS** (TSX:T)(NYSE:TU) stocks offer generous *and* growing dividend income.

So which is a better dividend stock to buy today?

Let's explore the two favourite dividend-growth telecom stocks across multiple facets.

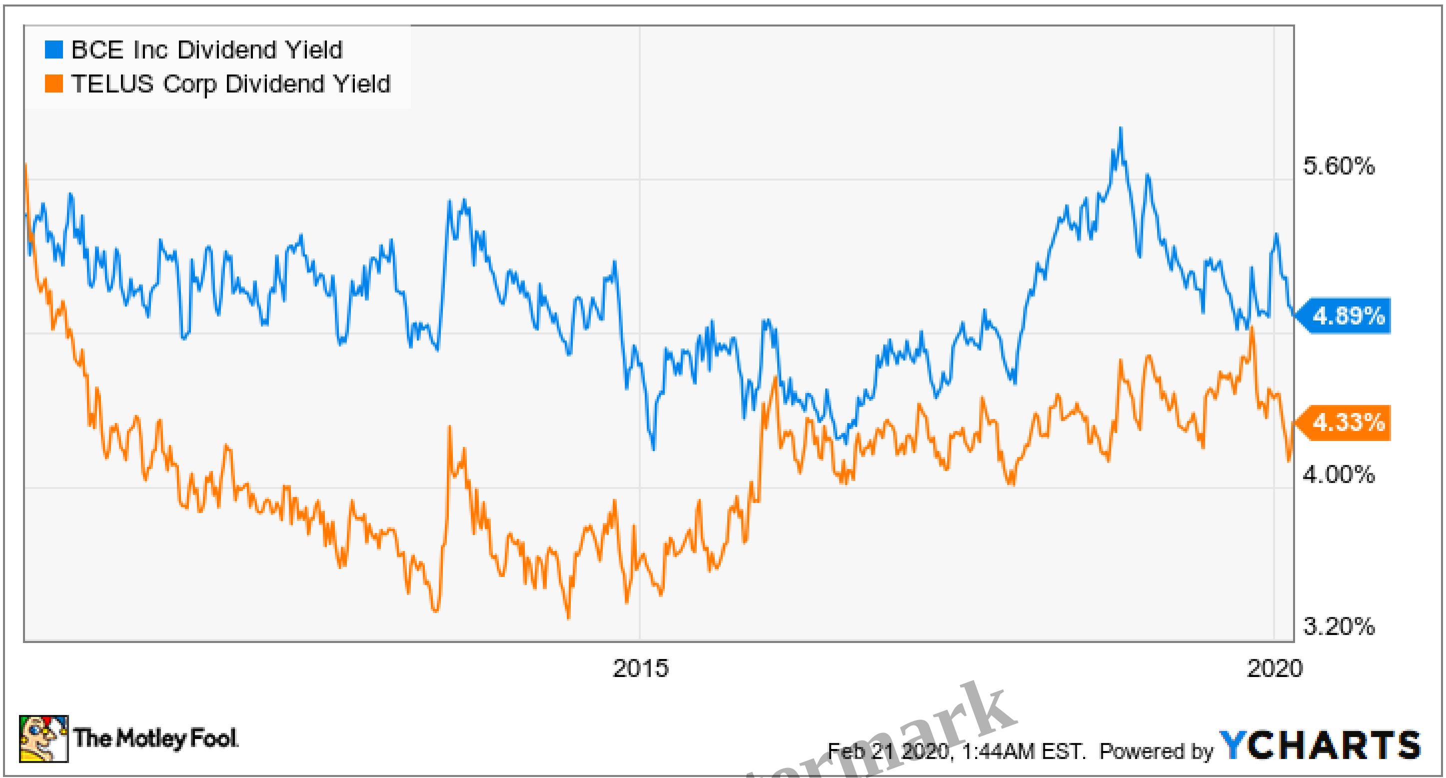
Dividend yield and safety

BCE stock yields 5.1%. It pays a quarterly dividend that equates to an annualized payout of $3.33 per share. Its payout ratio is expected to be about 93% of its estimated 2020 earnings per share. However, its free cash flow payout ratio is estimated to be about 79%.

Telus stock yields 4.5%. It pays a quarterly dividend that equates to an annualized payout of $2.33 per share. Its payout ratio is expected to be about 80% of its estimated 2020 earnings per share and its free cash flow payout ratio is estimated to be about 84%.

Although BCE offers a bigger dividend yield, Telus's yield is a tad bit safer, as it's well covered by both earnings and free cash flow.

Additionally, the telecom's 10-year yield history suggests that BCE is a good buy at a yield of about 5.5% and Telus at a yield of about 4.8%. In that respect, Telus is also a slightly better buy.



BCE Dividend Yield data by YCharts. The 10-year dividend yield history of BCE stock and TELUS stock.

Dividend growth potential

BCE stock has increased its dividend per share for 11 consecutive years. Its five- and 10-year dividend growth rates are 5.1% and 7.2%, respectively. It's estimated to experience earnings-per-share growth of about 4% per year over the next three to five years.

Telus stock has increased its dividend for 16 consecutive years. Its five- and 10-year dividend growth rates are 8.2% and 9%, respectively. It's estimated to grow earnings per share by about 7% per year over the next three to five years.

Telus stock will likely continue to boost its dividend at a higher rate than BCE due to the former's anticipated greater profit growth and lower payout ratio (based on earnings).

Valuation

At writing, BCE stock trades at right under $65 per share and a price-to-earnings ratio (P/E) of about 18.5, while Telus stock trades at $52 per share and a P/E of about 18.1.

Telus is cheaper because it has a lower P/E *and* is expected to have greater earnings growth. The stock recently dipped to $52 per share because it announced an equity offering of $1.3 billion.

Investor takeaway

Telecom stocks can serve as a core holding for a diversified dividend portfolio due to their sticky nature — people nowadays can't do without their internet or data. It's like breathing to them.

Between the two big Canadian telecoms that increase their dividends periodically, Telus appears to be a better buy for total returns and dividend growth.

Rogers Communications was not a part of the discussion because it hasn't been consistently increasing its dividend in the last few years. However, it still pays a nice dividend that yields 3%.

Moreover, it's the cheapest of the three big telecoms with a P/E of 16. Due to its low payout ratio of about 47% of earnings, it could be the black horse with the biggest dividend hikes in the future should management choose that path once again.

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