TFSA Investors: A Top Canadian Dividend Stock to Ride Out the Recession

Description

Income investors want to know which dividend stocks might be top picks for a Tax-Free Savings Account (TFSA) portfolio.

Top recession stocks

As more companies report Q1 results, it becomes clearer that the economy is in trouble and headed for a rough ride. Analysts expect the second quarter of 2020, in particular, to be brutal.

Hopefully, the recession proves to be short-lived and followed by a strong economic recovery. Pundits have varying views on the endgame. Some economists say investors should prepare for an economic downturn that resembles a depression. Optimistic analysts anticipate a robust “V” recovery.

Time will tell.

Much depends on how quickly countries can reopen their economies. The arrival of effective treatments or vaccines to treat the coronavirus will also play a critical role.

How does this impact your investment decisions?

Income investors want above-average yield, but they have to balance this desire with the risk they take buying dividend stocks. In such uncertain times, it makes sense to seek out companies that provide essential services and have long track records of dividend growth.

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

BCE

BCE (TSX:BCE)(NYSE:BCE) is a longstanding favourite among conservative income investors. Analysts widely view the stable dividend as being very safe. BCE typically raises the payout by 5% each year. Growth in free cash flow supports the higher payouts, and while 2020 might be an off year for profitability, investors should feel comfortable with the security of the distribution.

BCE enjoys a wide competitive moat and spends the money needed to protect its advantage. The company invests billions of dollars each year to upgrade its wireless and wireline network infrastructure.

The fibre-to-the-premises program, for example, brings fibre-optic lines right to the door of homes and businesses. BCE thus controls the main broadband link to the property, giving it an important and sticky customer connection.

BCE has the power to raise prices when it needs added cash. While this irks subscribers to its services, it also ensures the business has the funds to meet capital requirements.

Risks

BCE's media division is taking a nasty hit. The professional sports leagues are shut down and the initial resumption of play will likely occur without fans in the seats. The company also owns radio stations and a television network. Ad spending is down as companies cut expenses to preserve cash flow.

The group represents about 14% of overall revenue. This is relatively small, but investors should prepare for the impact in the Q1 and Q2 results.

Opportunity

Soaring broadband use during the lockdowns might result in higher subscription revenue for premium plans and streaming services. BCE's robust network has proven to be vital during the lockdowns, enabling Canadians to work from home using video conferencing technology. The new normal could see many people based out of their home offices for two or three days per week.

The reliability of the Canadian telecom networks during the crisis could persuade the government to tone down threats to force BCE and its peers to cut service rates. The communications companies argue that revenue cuts would lead to less investment and potentially put Canada at a competitive disadvantage.

BCE's dividend provides a 5.9% yield at the time of writing. The stock should hold up well through the economic downturn.

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