Dividend Investors: Should You Buy Telus (TSX:T) or Royal Bank of Canada (TSX:RY) Stock?

Description

The 2020 market crash is providing income investors with an opportunity to buy top dividend stocks at discounted prices.

Let's take a look at **Telus** (TSX:T)(NYSE:TU) and **Royal Bank of Canada** (TSX:RY)(NYSE:RY) to see if one deserves to be on your buy list today.

Telus

Telus is a major player in the Canadian communications industry, providing wireless and wireline customers with mobile, internet, and TV services. The company invests heavily in network upgrades to ensure clients have access to the broadband they need. This is proving invaluable amid the pandemic lockdowns.

Employees forced to work from home are using video conferencing platforms to conduct business. Families are streaming movies and other videos to stay entertained, and students are using multiple online tools to follow their studies.

As a result, Telus should benefit from plan upgrades and new subscriptions.

Telus avoided the temptation to spend billions of dollars on media assets. Instead, the company has invested funds in the development of Telus Health. The division is Canada's leading provider of digital health services. The surge in online consultations between people and their healthcare providers is shining a light on the group's products, and Telus Health could see rapid growth in the next few years.

Telus saw a jump in free cash flow in Q1 compared to last year and generated decent results in the first three months of 2020. The company entered the crisis with a strong balance sheet and has more than $3 billion in liquidity. No debt matures until 2021.

Telus provides services that people and businesses need every day. This is why the stock tends to hold up well when the broader market tanks. Telus trades near $22.50 per share at the time of writing compared to $27.50 in February.

Investors could see a dividend hike in late 2020. The current payout provides a 5.2% yield.

Royal Bank

Royal Bank is Canada's largest financial institution. The stock is down from $109 earlier this year to a current price near $85. The sell-off puts the dividend yield at 5%, which is rare to see with this stock.

The bank entered the crisis with a CET1 ratio of 12%. That means it has a strong capital position and should be well positioned to ride out the downturn. That said, there is uncertainty surrounding the potential wave of loan defaults from consumers and businesses in the next 12-18 months.

Roughly 12% of Canadian residential mortgage holders have received payment deferrals. The CMHC estimates that number could hit 20% by the end of the year. In addition, the CMHC predicts a drop in average house prices of 9-18% by the time the worst of the economic crisis is done.

Unemployment levels are at their highest since the 1930s. If the economy doesn't rebound as quickly as anticipated, the banks could see much higher loan losses than expected. In that scenario, Royal Bank's share price could retest the March 2020 lows.

On the positive side, the government aid being provided to consumers and businesses should mitigate the damage. A successful re-opening of the economy and the development of an effective vaccine by the end of the year could result in a V-shaped recovery. If that is the eventual outcome, Royal Bank appears very cheap today.

Is one a better bet?

Telus and Royal Bank are both top-quality companies that should be solid picks for buy-and-hold income portfolios.

That said, Telus is probably the safer pick right now. Investors will likely see a dividend increase before the end of the year and another hike in the first half of 2021.

If you simply want a top dividend stock to buy and forget, I would probably make Telus the first choice right now.

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