TFSA Dividend Investors: Should You Buy BCE (TSX:BCE) or BMO (TSX:BMO) Stock?

Description

Dividends investors want high yield without taking on too much risk.

The market crash in March briefly sent the yields on some of Canada's top dividend stocks to levels not seen since the Great Recession. The sharp rebound in the **TSX Index** continues to bring yields down, but investors can still find good deals at current stock prices.

Let's take a look at two dividend stocks that might be interesting picks right now for a dividend-focused TFSA portfolio.

BCE

BCE (TSX:BCE)(NYSE:BCE) just announced a deal to sell 25 of its data centre facilities for $1.04 billion in cash. The deal underscores BCE's shift to focus investment on network infrastructure and communications services.

BCE is Canada's largest communications company with wireless, wireline, and media assets with the potential to interact with most Canadians on a regular basis. The company has 22 million consumer and business connections in the country.

The media group is going through a rough time during the pandemic lock downs. Sports teams are still waiting to restart their seasons and businesses have cut back on ad spending to preserve cash.

As the provinces move through the reopening process, the economy will eventually get back on track and that should help the media group recover. In the meantime, the mobile, internet, and TV services are seeing strong demand as people work and study from home.

BCE's dividend is known for being reliable through challenging economic conditions and the stock tends to hold up well when the broader market hits periods of volatility.

At the time of writing, investors can buy the stock for $57 and get a dividend yield of 5.8%. The shares traded as high as $65 in the past 12 months, so there is some upside potential on a recovery in the media group.

Bank of Montreal

Bank of Montreal (TSX:BMO)(NYSE:BMO) paid its first dividend more than 190 years ago and has given investors a slice of the profits every year since. That's a good track record.

The share prices of the big Canadian banks are off the March lows, but still down from the highs reached before the pandemic. Bank of Montreal earned $689 million in fiscal Q2 2020, compared to $1.49 billion in the same period last year.

The drop comes as a result of an increase in provisions for credit losses (PCL). Bank of Montreal set aside $1.12 billion for potential loan defaults in the coming months.

It's possible the actual losses will turn out to be lower than anticipated, but there is still much uncertainty on how quickly the economy will recover. A V-shaped rebound with unemployment levels falling steadily through the end of the year would reduce the potential defaults on mortgages and other loans.

The Big Six Canadian banks have authorized deferrals for up to six months on roughly 15% of outstanding mortgages.

Bank of Montreal expects Canadian real gross domestic product to contract 6% in 2020 and then rebound 6% next year. If that turns out to be the case, the stock appears cheap right now for buy-and-hold investors.

The stock trades at $69 per share right compared to $104 in January. The $1.06 quarterly dividend should be safe and Bank of Montreal now offers an attractive 6.1% annualized yield.

Is one a better buy?

BCE might be the way to go if you are concerned the recession will last longer than expected.

Otherwise, investors who see a V-shaped recovery on the horizon should consider Bank of Montreal as the first choice.

While bank stocks arguably carry more short-term risk, they also appear cheap right now, especially if the loan losses turn out to be less than anticipated.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:BMO (Bank of Montreal)
3. TSX:BCE (BCE Inc.)
4. TSX:BMO (Bank Of Montreal)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Date
2025/08/20
Date Created
2020/06/02
Author
aswalker