



Better Buy: BCE (TSX:BCE) or Telus (TSX:T)?

Description

I believe that every portfolio needs a telecom stock or two. These are excellent businesses that have solid pricing power. After all, when was the last time your cable or internet bill went down?

There's just one problem. There are three dominant telecoms in Canada — along with a smattering of regional players. What separates one from another in today's highly competitive world? How can you decide which to put in your portfolio?

This article will help. Let's take a closer look at two leading telecom stocks, **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) and **Telus** ([TSX:T](#))([NYSE:TU](#)), two investor favorites that are owned by millions of Canadians. Should you prefer one over the other today?

Asset comparison

On the surface, both Telus and BCE look to be almost identical. Both provide wireless, cable, internet, and home phone services to millions of Canadians. The two companies have even joined forces and have essentially combined their wireless networks.

BCE has more customers, but that's really only because its wireline services are located in Eastern Canada — an area with more people than out west.

Where the two companies start to differ is in their other assets. BCE has focused on building its media business over the last decade or two, acquiring assets like TV channels, radio stations, and stakes in professional sports teams. This is all part of a strategy to own content, which helps its cable TV business. The fees paid by Bell Cable to carry TSN, for example, just end up in another part of the same company's pocket.

Telus, meanwhile, has gone in a different direction. It has a healthcare division that focuses on ways technology can help doctors, nurses, and pharmacists. This technology has been in the spotlight recently, as doctors are using it to meet digitally with patients. The company has also recently expanded into the call centre space.

Overall, I'll give a slight edge here to Telus. It's more of a [pure-play telecom](#), which means it has slightly better overall margins. BCE's media business just isn't as good as Telus's healthcare and call centre subsidiaries.

Valuation

In a world where many investors value stability, neither of these stocks are particularly cheap.

Let's start with Telus. Shares currently trade hands at \$24.16 each. Analysts expect the company to earn \$1.27 per share in 2020. That gives us a forward price-to-earnings ratio of 19 times. This is a little higher than normal, because analysts predict 2020's earnings will be down before recovering in 2021.

BCE shares currently trade hands at \$59.24 each. The company is expected to earn \$3.21 per share in 2020, which gives us a forward price-to-earnings ratio of a little over 18 times. Like Telus, BCE is expected to post better earnings in 2021.

Although the difference isn't much, the advantage in valuation definitely goes to BCE.

Dividends

Both stocks are excellent dividend-growth names, offering a nice combination of increased payouts and [solid yields](#). But is one better than the other?

Let's start with BCE this time. Shares currently yield a robust 5.6% — an excellent payout in today's low interest rate world. Dividend growth is solid too, averaging 7% per year for the last 11 years.

Telus also offers a solid payout, with shares currently yielding 4.8%. At first glance, that appears to come up a little short compared to BCE's payout, but Telus makes up for it by offering superior dividend growth. Its dividend-growth rate has been closer to 8.5% over the last 11 years. It has also told investors to expect 7-10% annual raises through 2022 — a promise it should still be able to keep even after dealing with COVID-19 and its impact on the business.

BCE offers the better yield today, but long-term investors should prefer Telus and its superior dividend growth.

The bottom line

Both BCE and Telus are excellent businesses that look poised to deliver solid returns going forward. I own both in my portfolio and would encourage other investors to do the same. Why choose when you don't have to?

But if I were forced to pick one over the other, it would be Telus. It has better dividend-growth potential, and I like its health care division a lot, too.

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1. Dividend Stocks
2. Investing

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2. NYSE:TU (TELUS)
3. TSX:BCE (BCE Inc.)
4. TSX:T (TELUS)

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