Better 6% Dividend — BCE (TSX:BCE) or Manulife (TSX:MFC)?

Description

Forget about the 4% dividend yield rule for a moment. Following the coronavirus crash, the yield bar has been raised substantially, with many popular TSX dividend stocks that are now sporting yields above that of their mean levels.

BCE (TSX:BCE)(NYSE:BCE) and **Manulife** (TSX:MFC)(NYSE:MFC) are two of blue-chip dividend darlings that now sport yields of around the 6% mark. While the businesses of both companies have been affected by the pandemic, the dividends still look well covered, especially if we're due for that V-shaped recovery that many pundits are pointing to.

While the dividend yields are the same, the firms behind each dividend are built very differently. Moreover, the dividend stability and growth potential also differ despite yields that align at this point.

Without further ado, let's have a closer look at each 6%-yielding dividend stock to see which, if either, is a fit for your portfolio today.

BCE

BCE is a behemoth of a telecom that's struggled to grow over the years. Despite compelling acquisitions, BCE has only managed to average 3.3% and 1.7% in revenue and net income growth, respectively, over the last three years.

The aircraft-carrier-sized telecom may be able to enjoy some margin expansion as next-gen telecom tech (5G) becomes the norm. But with increasing competition in the Canadian telecom scene, one has to think that such a margin boost will be temporary.

For a firm yielding 6%, though, you shouldn't expect much growth. On the dividend safety front, BCE gets top marks, not just because of the firm's stellar liquidity position, but also because operating cash flows stand to be minimally impacted by the coronavirus crisis.

In terms of dividend growth, you'll get mid-single-digit growth over the long haul, as the firm looks to continue its streak of generous dividend hikes.

With shares trading at 2.7 times book, 6.6 times cash flow, and 8.4 times EV/EBITDA, BCE looks like a worthy pick up for any income investor who values dividend growth and stability over capital gains potential.

Manulife

Manulife is an insurance company that operates primarily in Canada, the U.S., and Asia — the latter of which is the bright spot as far as long-term growth is concerned.

As the economy looks to inch back to normalcy after this pandemic, Manulife stock has far more room to run relative to the likes of a Steady Eddie" like BCE. That said, Manulife has its own share of headwinds and baggage that investors need to understand before they buy the dividend darling on the dip.

In a recession like the one we find ourselves in right now, insurance and wealth management products tend to be a tougher sell. And with rock bottom interest rates (that could last for many years) thrown into the equation, Manulife's earnings will come under a considerable amount of pressure, even after the pandemic passes.

That said, shares of MFC priced with such headwinds in mind already. Manulife stock trades at 0.7 times book, 1.7 times cash flow, and 3.64 times EV/EBITDA. The former metric (P/B) ought to be considered more reliable, given the magnitude of earnings pressure as a result of the coronavirus crisis.

The dividend is also very well covered right now. But one has to expect some disruption to cash flows depending on how long this pandemic drags on. There's no question that Manulife is a more uncertain play amid the pandemic, but there are also greater potential rewards in an upside scenario for MFC relative to BCE.

For now, deep-value investors seeking capital gains upside who wouldn't mind more volatility (high 1.26 5-year beta) ought to consider Manulife shares while they're down.

Which TSX stock has a better 6% dividend?

If you're an at-risk investor who believes a vaccine will arrive soon, Manulife has way more upside and is the better bet. For more conservative investors looking to reduce beta and batten down the hatches for a potential worst-case scenario, BCE may be a better buy.

Personally, the value to be had in Manulife is far more enticing than that of BCE, especially with its promising growth prospects in Asia.

So, for me, the winner is Manulife stock.

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