Dividend Investors: Should You Buy Telus (TSX:T) or TD (TSX:TD) Stock Today?

Description

Income investors are searching for reliable dividend stocks to add to their Tax-Free Savings Account (TFSA) portfolios.

The correction in the market this year finally gives dividend fans a chance to buy some of Canada's top companies at discounted prices. While share prices are certainly not as cheap as they were in March, several top stocks still trade at attractive prices and offer great dividend yields.

Let's take a look at **Telus** (TSX:T)(NYSE:TU) and **TD** (TSX:TD)(NYSE:TD) to see if one is a better bet today for dividend investors.

Telus

Telus is a major player in the Canadian communications sector. The company operates world-class wireless and wireline network infrastructure across the country. Mobile, internet, and TV services compose the core of the offerings.

Telus works hard to ensure it provides the best possible customer service. The results of the efforts show up in the earnings statements. Telus regularly reports the industry's lowest post-paid mobile churn rate. Acquiring new customers is expensive, so low turnover is a key metric.

Telus decided not to enter the media business. Analysts debate whether this is a wise move. So far, the lack of a TV network or sports team hasn't hurt the company.

Instead, Telus invested significant funds in recent years to build its Telus Health division. The group is Canada's leading provider of digital health solutions to doctors, hospitals, and insurance companies. The pandemic is driving a surge in the use of these products and services. Going forward, Telus Health could become a significant contributor to revenue and profits growth.

Telus normally raises its dividend twice per year. While investors didn't receive an increase in the first half of 2020, they could still see a bump in the payout in the coming months.

The stock tends be less volatile than the broader market during difficult economic times. Investors who buy today can pick up a 5% yield.

TD

TD is a giant in the Canadian banking industry. It is also a major force in the United States. In fact, the U.S. retail banking group operates more branches.

The impact of the pandemic lockdowns on the bank became evident when TD reported fiscal Q2 results, which cover the three months ended April 30. TD booked more than $3 billion in provisions for credit losses. This is not money the bank actually lost on loan defaults, but an amount set aside to cover expected potential losses.

The recent surge in coronavirus cases in parts of the United States could slow the reopening process and impede the economic recovery. New lockdowns would mean an extended period of high unemployment. This could potentially increase default risks on mortgages, car loans, and credit card balances.

Canada appears to have the pandemic under control and the gradual reopening of businesses continues. The economy added nearly one million jobs in June, so we are on the right track.

TD and its peers provided six-month deferrals for roughly 15% of outstanding Canadian mortgages. As the deferral periods start to expire in September, the unemployment rate is key for investors to gauge potential trouble.

In addition, deferred income taxes are due by the end of August. Many cities also pushed the deadline for property tax payments to the end of next month. As such, September could be rough for the banks. Government support programs continue to help people get through the crisis. At some point, however, these payments will end.

Despite the uncertain outlook, TD remains a very profitable company and the dividend should be safe. Some of the top U.S. banks are reporting better-than-expected Q2 results, driven by high trading revenues. It's possible that TD's fiscal Q3 could surprise to the upside.

The dividend should be safe and provides a 5% yield.

Is one a better bet?

Telus and TD are both top-quality picks for a buy-and-hold dividend fund. Five years from now the share prices should be meaningfully higher.

Telus is probably the safer bet today for conservative investors. TD comes with more near-term risk,but likely also provides better upside torque as the economy recovers.

I would probably split a new investment between the two stocks.

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