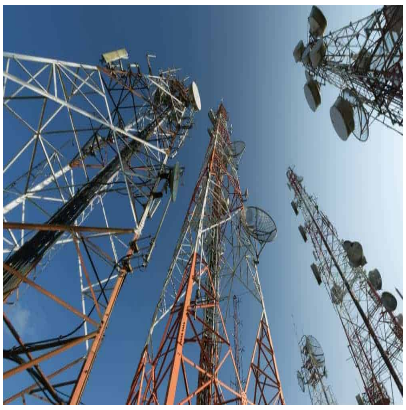

2 TSX Telecom Stocks to Buy in 2022 for Income

Description

The Bank of Canada recently raised the policy interest rate by 25 basis points to 0.50%. This was done in an attempt to quell surging inflation, which hit as high as 5.7% in February. With more hikes planned along the way, the returns of growth stocks and bonds could be facing strong headwinds.

With the market expected to trade more or less sideways for the foreseeable future, some investors have pivoted their portfolios to a high-yield strategy using income-paying dividend stocks at better valuations. Luckily for them, the TSX is full of these stocks, especially in the telecommunications sector.

The TSX telecom sector has historically been a low beta (volatility) anomaly, characterized by monopolistic companies enjoying little competition, an endless customer base, and high retention rates. These companies have consistently paid out and increased their dividends for decades, which make them attractive long-term investments.

Telus

Telus (TSX:T)(NYSE:TU) provides a range of telecommunications and information technology products and services in Canada. Its products and services are diverse, including wired and wireless internet, cable, security, home automation, health care, agriculture, and cloud-based products.

Telus currently has a forward annual dividend yield of 4.03% and pays $1.31 per share. The stock recently went ex-dividend on March 10, 2022, and the dividend will be paid out on April 1, 2022. With a beta of 0.54, Telus stock is around half as volatile as the overall market.

Aside from that, the company's revenues, earnings, and dividend payouts have increased consistently over the last decade, displaying good growth and profitability in all economic conditions. Telus currently has an operating margin of 16.78%, quarterly YoY revenue growth of 9.80%, and ROE of 11.86%.

BCE Inc

BCE (TSX:BCE)(NYSE:BCE) provides wireless, wireline, internet, streaming, digital media, broadcasting, and both cable and satellite television services to residential, business, and wholesale customers in Canada. It operates through three segments: Bell Wireless, Bell Wireline, and Bell Media.

BCE currently has a forward annual dividend yield of 5.42% and pays $3.68 per share, making it one of the top dividend stocks in Canada. The stock recently went ex-dividend on March 14 as well, and will pay out on April 15. Currently, BCE has a beta of 0.34, making it a third as volatile as the overall market.

Compared to Telus, BCE trades at around the same valuation, with an EV/EBITDA of 10.11 versus 10.46, forward P/E of 20.92 versus 26.45, P/S of 2.72 versus 2.67, and P/B of 3.44 versus 3.02. BCE shows better profitability, with an operating margin of 22.45%, ROE of 13.07%, but lower quarterly YoY revenue growth at just 1.80%.

The Foolish takeaway

A combination of healthy dividend yields and history of consistent payout increases makes Canada's telecom stocks an excellent defensive play. To sum it up, currently BCE has the higher dividend yield and lower volatility, while Telus has better growth prospects. For diversification, consider buying both.

Buying BCE and Telus now could be a great way to lock in a low yield on cost, as their current valuations are quite attractive. Both of these stocks are great long-term holds, and especially more so if you can buy them at a discount. Reinvesting and compounding the dividends consistently will enhance your gains even more.

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