



## Better Buy: Royal Bank Stock or BCE Stock?

### Description

The [market correction](#) is giving Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) investors an opportunity to buy some of Canada's top dividend stocks at [undervalued](#) prices for portfolios focused on passive income and total returns.

Let's take a look at **Royal Bank** ([TSX:RY](#)) and **BCE** ([TSX:BCE](#)) to see if one deserves to be on your buy list.

### Royal Bank

Royal Bank is a giant in the Canadian and global banking sector. The company is the largest on the [TSX](#) by market capitalization and among 10 largest banks in the world.

[Bank stocks](#) have taken a beating over the past eight months amid rising recession fears. The Bank of Canada and the U.S. Federal Reserve are raising interest rates aggressively to try cool off the overheated economy and get inflation back down to their 2% targets. Inflation was 6.9% in Canada in September and 8.2% in the United States.

Higher interest rates make borrowing more expensive for businesses and households. There is a risk that the steep hikes to interest rates over such a short period of time could trigger a larger economic correction than expected. Families are already cutting spending on discretionary items to cover the rising cost of food, gas, and utilities. The added burden of a large jump in mortgage costs will reduce non-essential spending even more and could trigger a wave of bankruptcies, as businesses start cutting staff and people are unable to pay their bills.

If the economy goes into a deep recession, and house prices collapse to the point where large numbers of property owners owe more than the value of the home, Royal Bank and its peers will feel some pain.

Royal Bank's own analysts predict a mild and short recession. Business and household savings remain high, and the job market is still strong. These should mitigate the negative impacts of soaring rates. In

this scenario, Royal Bank should get through the downturn in good shape, and the stock's slide from \$149 earlier this year to the current price around \$125 looks overdone.

Royal Bank raised the dividend by 11% late last year and by another 7% when it announced the fiscal second-quarter (Q2) 2022 results. Investors can get a 4% yield right now and wait for the rebound in the bank sector.

## **BCE**

BCE is Canada's largest communications firm with a current market capitalization of \$55 billion. The stock is down from \$74 in April to the current price around \$60. Given the solid Q2 results and management's confirmed guidance for earnings and free cash flow growth in 2022 the stock now appears undervalued.

BCE isn't recession-proof. The media division will likely see advertising revenue slide in 2023 or 2024 if businesses need to cut expenses. Sales of new mobile phones could also slow down, as people and companies decide to hold older models for longer.

That being said, the bulk of BCE's revenue comes from essential mobile and internet services, so the stock should be a good core holding during an economic downturn.

BCE raised the dividend by 5% for 2022. Investors should see a similar payout hike for 2023. At the current share price, the stock provides a 6% dividend yield.

## **Is one a better bet?**

Royal Bank and BCE pay attractive dividends that should continue to grow. The companies are leaders in their industries, and the two stocks appear oversold today, so they should be solid buy-and-hold bets for a retirement fund.

If you only buy one, I would probably make BCE the first choice. The dividend yield is much higher, and the stock should hold up better if a recession turns out to be worse than expected.

## **CATEGORY**

1. Investing

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1. Investing

**Date**

2025/07/02

**Date Created**

2022/10/27

**Author**

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