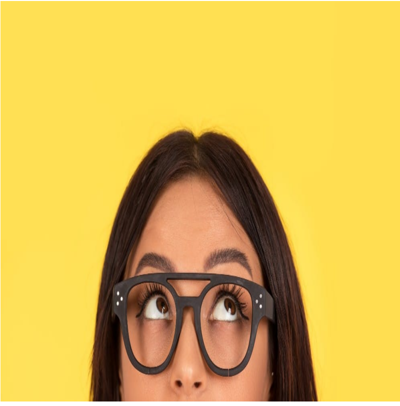

Better Buy: Royal Bank Stock or BCE Stock?

Description

The market correction is giving retirees and other investors seeking quality passive income a chance to buy top TSX dividend stocks at undervalued prices.

Industry leaders with wide competitive moats and strong balance sheets should be good stocks to buy in an uncertain economic environment.

BCE

BCE (TSX:BCE) just reported solid third-quarter (Q3) 2022 results, extending the strong performance this year. Operating revenue rose 3.2% to $6.02 billion in Q3 compared to the same period in 2021. Adjusted net earnings increased by 7.1% to $801 million. Free cash flow jumped 13.4% to $642 million.

BCE says it is on track to meet its financial guidance for 2022. Revenue growth is expected to be as high as 5% for the year and adjusted earnings per share will be 2-7% higher than 2021. Free cash flow is on track to grow as much as 10%.

The company also just announced a new share-buyback plan that will enable BCE to repurchase up to 10% of its outstanding stock over the next 12 months.

BCE typically raises the dividend by about 5% annually. The strong Q2 results should support another hike in that range for 2023. At the time of writing, BCE stock appears somewhat undervalued below $62 and provides a 6% dividend yield.

BCE should be a good stock to buy to hold during a recession. The mobile and internet revenue streams are essential services that people and businesses need regardless of the state of the economy.

Royal Bank

Royal Bank (TSX:RY) is a giant in the Canadian and global financial industry with a current market capitalization of $177 billion.

The bank generated $16.1 billion in earnings in 2021 and is on track to deliver another strong year in 2022, despite the challenging environment. Royal Bank gets its revenue from a number of segments including personal banking, commercial banking, wealth management, capital markets, insurance, and investor and treasury services.

The capital markets group is expected to feel some pain as investment banking deals dry up amid the uncertain economic outlook and the steep rise in borrowing costs. Wealth management revenues could also take a hit as equity markets drop and people start pulling savings to cover rising living expenses.

Overall, however, Royal Bank is expected to continue to deliver good profits, even if a recession occurs next year.

Royal Bank has a strong capital position to ride out the downturn and soaring interest rates will boost net interest margins. This will help offset some of the negative effects, such as an anticipated jump in loan defaults. Royal Bank might even take advantage of the downturn in the bank sector to make a large strategic acquisition to drive future growth.

The stock appears oversold near the current price of $127, even with the anticipated economic headwinds. Investors who buy RY stock today can get a decent 4% dividend yield and wait for the rebound.

Is one a better buy?

BCE and Royal Bank both appear cheap right now and deserve to be core holdings in a Tax-Free Savings Account or Registered Retirement Savings Plan portfolio. If you only buy one, I would probably make BCE the first pick. The yield is much higher on the dividend, and the stock should be less volatile if the economic downturn turns out to be worse than expected.

CATEGORY

1. Dividend Stocks
2. Investing

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2. TSX:RY (Royal Bank of Canada)

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