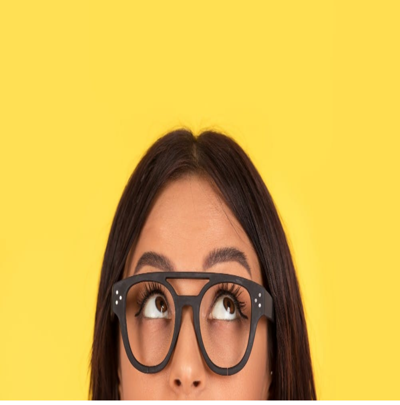

Better Buy: Royal Bank Stock or BCE Stock?

Description

Top Canadian stocks are rebounding off their recent lows. Investors are now wondering which stocks are good to buy for their Tax-Free Savings Account (TFSA) or Registered Retirement Savings Plan (RRSP) portfolios. Ongoing volatility should be expected, so it makes sense to look at industry leaders with strong track records of delivering dividend growth and decent total returns.

Royal Bank

Royal Bank (TSX:RY) trades for close to $132 per share at the time of writing. That's up from the $117 it hit last month but still well down from the 2022 high near $150. Royal Bank's dividend current provides a 3.9% yield. The board raised the payout by 11% near the end of 2021 after the government ended a pandemic ban on dividend hikes at the banks. Royal Bank then increased the distribution by another 7% when the company reported the results for the fiscal second quarter (Q2) of 2022. This would suggest the management team is comfortable with the revenue and profits outlook over the next couple of years, despite the economic headwinds.

Royal Bank's profits for the first three quarters of fiscal 2022 are only down 2% from the same period last year. Higher interest rates might put pressure on loan growth and could drive up loan losses in coming quarters, but big jumps in rates also tend to boost net interest margins, and this should help offset some of the negative effects.

Royal Bank finished fiscal Q3 with a common equity tier-one (CET1) ratio of better than 13%. The government requires the banks to have a CET1 ratio of 10.5%, so Royal Bank is sitting on significant excess cash. This is a good cushion to ride out an economic downturn and gives Royal Bank the firepower to make strategic acquisitions that might come up after the rout in the bank sector this year.

Long-term investors have done well holding RY stock. A $10,000 investment in the bank's shares 25 years ago would be worth about $165,000 today with the dividends reinvested.

BCE

BCE (TSX:BCE) has raised its dividend by at least 5% in each of the past 14 years. The business is on track to meet its financial guidance in 2022, so another solid payout increase is likely on the way for 2023.

BCE is investing $5 billion in 2022 to upgrade its wireline and wireless networks. The company is running fibre optic lines directly to the premises of another 900,000 customers this year and continues to expand its 5G mobile network after spending $2 billion on new 3,500-megahertz spectrum last year at the government auction.

These capital initiatives open up new revenue opportunities and help protect BCE's competitive position in the market. The company's media group has rebounded strongly from the pandemic hit. A recession in 2023 or 2024 could stall the recovery, but BCE's mobile and internet service revenue should hold up well during an economic downturn.

BCE trades near $62 per share at the time of writing compared to $74 at the 2022 high. The pullback appears overdone, and investors can now get a 5.9% dividend yield.

A $10,000 investment in BCE stock 25 years ago would be worth about $170,000 today with the dividends reinvested.

Is one a better bet?

Royal Bank and BCE are both industry leaders that should continue to deliver dividend growth in the coming years. TFSA investors focused on passive income might want to make BCE the first pick for the higher yield. RRSP investors might consider adding Royal Bank at this level. Bank stocks appear oversold right now and could deliver meaningful capital gains when the sector rebounds.

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

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2. Investing

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2. TSX:RY (Royal Bank of Canada)

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