Better Buy: TD Stock or Telus?

Description

The market continues to rebound after the recent correction, but many top TSX dividend stocks still trade at discounted prices compared to their 2022 highs. Telecoms and banks, for example, might be interesting stocks to consider heading into 2023.

TD Bank

TD (TSX:TD) trades near $91 per share at the time of writing compared to $109 earlier this year. The stock is off the low it hit in the summer but still appears oversold.

TD generated solid fiscal 2022 results. The company reported adjusted net income of $15.43 billion compared to $14.65 billion in fiscal 2021. This is a strong performance considering the challenging conditions in several segments in recent months.

Looking ahead, revenue growth from mortgage loans and business loans could slow, as the economy enters a possible recession. The Bank of Canada and the U.S. Federal Reserve are raising interest rates aggressively to try to get inflation under control and back down to a target rate near 2%.

To achieve this goal, the central banks need to slow down the economy and balance out the employment market. Ideally, they will orchestrate a soft landing that imposes limited pain on households and companies. There is a risk, however, that the rate increases will be too punitive, triggering a sharp decline in the economy and a wave of job losses that pushes unemployment rates up higher than expected.

In this scenario, many Canadian households that are already struggling with higher costs of essential goods and sharp increases in mortgage rates could start to default on loans. The potential fallout could be a plunge in property prices caused by a flood of listings. That would potentially hit TD and its peers hard, as they all carry large portfolios of Canadian residential mortgages.

On the positive side, rising interest rates tend to boost net interest margins for the banks, and this can help offset some of the negative effects.

TD built up a war chest of excess cash during the pandemic and is using a good chunk of the funds to make two acquisitions in the United States. The purchase of **First Horizon** for US$13.4 billion will make TD a top-six bank in the American market. In addition, TD is buying **Cowen**, an investment bank, for US$1.3 billion. These deals should drive decent growth in the coming years.

TD raised the dividend by 13% last year. Investors should see another generous increase in fiscal 2023.

Telus

Telus (TSX:T) trades near $28 per share at the time of writing and provides investors with a 5% dividend yield. The stock was as high as $34.50 earlier this year, so there is good upside potential as the market recovers.

Telus generated strong results for the third quarter of 2022, extending a positive run in 2022 that should continue next year. The company gets the majority of its revenue from essential mobile and internet services. This should make Telus a good stock to own during a recession.

Investors could see annual dividend growth trend in the 7-10% range over the next few years. Telus is nearing the end of its copper-to-fibre transition and expects capital outlays to drop by about $1 billion in 2023. This should free up excess cash for dividend increases or share buybacks.

Is one a better bet?

Telus is likely the safer pick today while TD probably offers better upside potential. Both appear undervalued, so I would probably split a new investment between the two stocks.

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