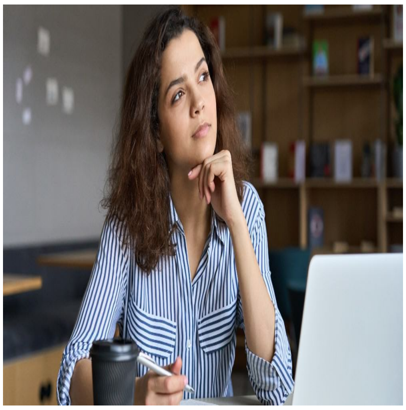

Better Buy: BCE Stock vs Royal Bank

Description

BCE (TSX:BCE) and **Royal Bank** (TSX:RY) have delivered solid long-term returns for patient shareholders. Investor now searching for top TSX dividend stocks to buy for their Tax-Free Savings Account (TFSA) and Registered Retirement Savings Plan (RRSP) portfolios in 2023 are wondering if these industry leaders are still good to buy.

BCE

BCE will announce its fourth-quarter (Q4) 2022 results and 2023 guidance on February 2, 2023. The communications giant is expected to report solid full-year 2022 numbers that hit its revenue, earnings, and free cash flow targets. As a result, investors should see a dividend increase in the 5% range for 2023, which is in line with the average annual payout hike over the past 14 years.

BCE stock slipped through the back half of 2022, falling from $74 in April last year to a closing low near $56 last October. The share price has since recovered to $62.50 at the time of writing, but BCE still looks cheap.

The company should be a good stock to own during a recession. BCE's media group might see revenue decline, as advertisers reduce marketing expenditures, but the core wireless and internet subscription products are essential services for households and businesses, so these revenue streams should hold up well in a downturn.

BCE's current dividend provides a 5.9% yield.

Royal Bank

Royal Bank ranks among the top 10 banks on the planet and is Canada's largest with a current market capitalization of more than $186 billion. The stock outperformed its peers through 2022 and is downjust 6% over the past 12 months compared to a plunge of more than 20% at some other Canadianbanks.

Royal Bank built up a war chest of excess cash during the pandemic. The bank used the funds in 2022 to make two strategic acquisitions to help drive domestic and international growth. Royal Bank purchased a wealth management business in the United Kingdom for $2.4 billion and is in the process of closing its $13.5 billion takeover of HSBC Canada.

Despite the large capital outlays Royal Bank expects to still maintain a common equity tier-one ratio of at least 11.5% after the HSBC Canada purchase, meaning it should have the safety net needed to comfortably ride out turbulence in the economy this year.

That being said, investors need to keep a close watch on provisions for credit losses in the next few quarters. If inflation remains high, and the Bank of Canada continues to increase interest rates, there could be a point where unemployment surges, and the housing market corrects more dramatically than anticipated. In that scenario, Royal Bank could see renewed pressure on the stock price.

At the time of writing, Royal Bank trades for more than 12 times trailing 12-month earnings. This isn't cheap, especially considering the uncertain economic outlook. The stock currently provides a 3.9% yield.

Is one a better a better buy?

BCE and Royal Bank are top TSX dividend stocks that should be solid picks for a buy-and-hold retirement fund. If you only buy one, I would make BCE the first choice today. You get a better yield, and the stock should hold up better if the economy slides into a deeper recession than what economists currently predict.

CATEGORY

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aswalker