Can BCE Continue To Raise Its Already Sizeable Dividend?

Description

BCE Inc. (TSX:BCE,NYSE:BCE) announced its 4th quarter and 2012 results this morning and surprised a lot of investors by hiking the dividend, again. The company just boosted the dividend back in August by $0.10. The $0.06 increase takes the annual payment to $2.33 for a current yield of 5.2%. The $2.33 annual payment represents a 60% increase from the 4th quarter of 2008, which begs the question, can the company keep this rising dividend trend going? Income hungry investors need to know!

To answer this query, we'll go right to the cash flow statement where dividends are born. Tabled below is a short history of BCE's free cash flow and dividends.

	2006	2007	2008	2009	2010	2011	20
Cash from ops	5,376	5,711	5,912	4,886	4,367	4,869	5,5
Cap ex	-3,121	-3,140	-2,986	-2,854	-2,998	-3,256	-3,5
Free cash	2,255	2,571	2,926	2,032	1,369	1,613	2,0
Dividends (Common)	-1,169	-1,147	-587	-1,201	-1,318	-1,520	-1,6
Payout rate	51.8%	44.6%	20.1%	59.1%	96.3%	94.2%	80.8

Source: Capital IQ

Lot's of numbers but the row to focus on is the Payout rate at the bottom. The company has been very friendly to shareholders in recent years by paying out a lot more of its free cash in the form of dividends. This has fuelled the growth that has occurred. However, now that BCE is paying out 80-90% of its free cash, this dividend growth strategy has largely been exhausted.

With the newly appointed annual dividend, BCE has itself a $1.8 billion annual cash obligation. Company literature expresses a desire to payout 65-75% of free cash flow in the form of dividends, even though the numbers above indicate they have exceeded this level in recent periods. Taking them at their word, and assuming a 70% payout, $2.6 billion of free cash flow is required to cover this obligation. That's a 30% increase from the $2 billion in free cash that we calculated for 2012. The company is only guiding for a 5-9% increase in free cash flow. This means BCE is going to have to rely on other sources of cash, debt issuance comes to mind, to cover the $2.33 obligation. To say the least, it's a stretch to assume there will be further dividend hikes out of BCE in 2013.

The Foolish Bottom Line

BCE Inc. has done a great job of rewarding shareholders by growing the dividend in recent years. This becomes even more impressive when you consider this is a company where top line growth is challenged. BCE expects revenue growth of 0-2% in 2013. There are only so many rabbits in a hat however and now that the company is paying out a sizeable chunk of free cash flow, dividend hikes going forward are unlikely to be as frequent, or generous for this telco.

Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BCE (BCE Inc.)

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