



## The Stock Picker's Guide to BCE in 2014

### Description

**BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) is a market leader in the Canadian telecommunications and media industry with 5.2 million fixed line, 7.9 million wireless, 2.2 million high speed internet and 2.3 million television subscribers. It also owns interests in CTV and Astral and the 750 retail store outlet, The Source.

The company recently reported 2013 full-year results, which by and large met the market expectations. The business produced revenue of \$20.4 billion and profit before interest tax and depreciation ("EBITDA") of \$8.1 billion which was 2.5% better than the year before. Earnings per share was up by 1% and the dividend per share was increased by 6%.

The company continues to perform well in the wireless, internet and media segments but the highest revenue contributor, the wireline business, continues to struggle as subscribers continue to ditch fixed line in favour of other methods of communication. Despite the negative wireline trend, the segment nevertheless had fewer net fixed line subscriber losses in the last quarter and also managed to improve the EBITDA profit margin.

The wireless segment continued its sterling performance, growing the subscriber base by 1.3% in the year and also managing to improve the gross profit margin and the average revenue per user. Similar positive results were evident in the internet and television segments where subscribers increased by 2.7% and 5.7% respectively.

### Key issues to watch in 2014

The company indicated that it expects to increase revenue by 2-4% and EBITDA by 3-5% during 2014. Earnings per share is expected to be between \$3.10-\$3.20 (compared to \$2.99 in 2013) and a dividend per share of \$2.47. Consolidated free cash flow is expected to total \$2,650 million-\$2,750 million which will be 3-7% higher than in 2013 and will cover the expected dividend payment comfortably.

Among the major risks to the company in 2014 is the outcome of the 700 MHz spectrum auction that is currently underway and could lead to increased competition. Unfortunately the company was not

allowed to provide any further update at the time of the recent results announcements and we will have to await the formal public announcements of the outcome.

### **The attraction of the dividend yield**

BCE Inc. has managed to pay uninterrupted and growing dividends over an extended period of time. For the past 10 years the dividend has increased on average by more than 7% per year supported by strong free cash flow generation and a solid balance sheet.

### **Foolish bottom line**

The company is a market leader in the key segments in which it operates and has built a considerable and valuable franchise over time. It is a stable performer with low growth expectations built into the current valuation. The free cash flow generation and dividend payment track record is impressive and we expect this to continue.

At the current 5.3% dividend yield and expectations for further mid-single-digit growth for the foreseeable future, we are comfortable holding an investment in this company.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)

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