3 Key Highlights From BCE Inc.'s Results

Description

BCE Inc. (TSX: BCE)(NYSE: BCE) is one of the top three telecommunications companies in Canada, with 7.95 million wireless subscribers, 7.3 million network access lines, 3.2 million internet subscribers, and 2.6 million TV subscribers. Its product lineup includes wireless, wireline, data, internet protocol, voice, television, entertainment, and video services. The company reports its results under four divisions, namely wireline, wireless, media, and **Bell Alliant Inc** (TSX: BA), which is a separately listed business in which BCE holds a major interest.

Second-quarter profit slightly below expectations

Adjusted net profit for the second quarter of the 2014 fiscal year amounted to $640 million, which was 7.7% higher than the year before. EBITDA as a key and relevant performance measure increased by 3.8% and adjusted profit per share amounted to $0.82, or 6.5% higher than the year before. This was slightly below consensus expectations.

BCE is forecasting profit per share growth of between 4%-7% and free cash flow growth of 3%-7% for the full year; indications show that these targets will be reached.

Reasonable all-round operational performance

In the wireless segment, the operating metrics were mostly positive, with the number of users increasing by 1.1% and the average revenue per user, or ARPU, up by 4.6% compared to a year ago. A positive development from a business profitability perspective was the 3% increase in the number of post-paid users, which carry considerably higher average revenue than prepaid users. The EBITDA in this division increased by 9.5% to $667 million and margins expanded compared to the previous year.

In the wireline division, the secular decline in local and international fixed phone lines continued unabated, with network access line connections 7.2% lower than a year ago. However, high-speed internet connections and TV connections fared much better, increasing by 3.3% and 6.6% respectively. EBITDA in this division declined by 2.7% on an adjusted basis to $953 million, and margins dropped slightly as well.

The media division increased EBITDA by 35% to $210 million, but the increase was mostly explained by the $2.9 billion acquisition of the French-language-focused TV and radio broadcaster Astral in July 2013.

Profit of $314 million at Bell Aliant was slightly lower than last year. Its TV, wireless, and internet segments performed well but local and long distance phone services provided a drag on profits. The acquisition of the shares not already owned by BCE of Bell Aliant for $3.95 million was announced on July 23. BCE expects approximately $100 million in pre-tax annual synergies and annual free cash flow accretion of approximately $200 million a year.

Decline in free cash flow but an increase in the dividend

As a result of much higher capital expenditures during the quarter, free cash flow decreased by 9.8% compared to a year ago. Despite this decline, the cash generation capability of the company remains sound and the quarterly dividend, which is linked to free cash generation, was accordingly increased by 6% compared to a year ago.

The main attraction is in the dividend

The main attraction for many investors in this company is its consistent and growing dividend payments, as well as the very attractive yield of 5.1% on the current price. The question always remains whether the dividend is sustainable — apart from the decline in free cash flow, which was well explained — but there was nothing in the results announcement that would suggest that the dividend is under threat.

The valuation of the company is reasonable, with an EV/EBITDA valuation of around 6.7 times and a P/E ratio of 15 times for the next 12 months. This valuation is currently at a slight discount to its Canadian peers but in line with its U.S. peers.

Its share price has declined by around 5% over the past few weeks, mainly over fears that increased government-favoured competition down the line will negatively impact company profits. The reasonable results and very attractive dividend yield will keep investors interested.

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