



## The Hidden Value of BCE Inc.'s Private Equity Portfolio

### Description

**BCE Inc.** ([TSX: BCE](#))([NYSE: BCE](#)) is one of the top telecommunications companies in Canada, with a line up that includes wireless, data, internet protocol, voice, television, entertainment, and video services. The business is organized into three operating divisions, namely Bell Wireless, Bell Wireline, and Bell Media. These divisions include the operating results of some of the major acquisitions made over the past few years, including Astral and CTV Inc.

Apart from this, BCE also owns a 44.1% interest in **Bell Aliant Inc** (TSX: BA), as well as equity interests in several other companies that potentially have stand-alone values considerably higher than their original acquisition costs. The objective of this article is to highlight the potential value of smaller assets that may not be reflected in the overall market value ascribed to BCE's total business.

### What is the value of BCE's "hidden assets"?

Q9 Networks Inc. is a leading provider of outsourced data centre solutions such as hosting, co-location, and cloud computing services. BCE holds a 35.3% interest in this business, which was acquired in 2012 by a consortium including BCE, for a total value of \$1.1 billion.

Maple Leaf Sports & Entertainment Ltd. owns the Toronto Maple Leafs, the Toronto Raptors, the Toronto Marlies, and Toronto FC. MLSE also holds real estate and entertainment assets in Toronto, including the Air Canada Centre and the Maple Leaf Square condominium and commercial complex. BCE acquired its 28% interest in 2012 for \$398 million, effectively valuing the business at \$1.42 billion.

BCE owns 18.4% of the Montreal Canadiens Hockey Club and Bell Centre, which was acquired in 2009 for \$50 million, for an effective valuation of \$272 million on the total business.

Given the current extraordinary values placed on some successful sports franchises, these values may be much higher in 2014 terms.

BCE also owns a 15% interest in *The Globe and Mail*, which was acquired from Thomson (now known as **Thomson Reuters Corporation**) in 2001 in combination with other assets, including CTV. The combined assets were valued at \$4 billion at the time.

Several other assets with potential considerable stand-alone value have also been acquired by BCE over the past few years. These include the following:

- Virgin Mobile — the remaining 50% interest was acquired in 2009, effectively valuing the business at \$322 million
- The Source — an electronics retail chain with 700 stores with an effective value of \$161 million, which was acquired in 2009
- xWave — a business focused on developing advanced technology solutions and IT professional services, including e-health solutions, which was acquired for \$40 million in 2009

Detailed information about the performance of these businesses since acquisition is scarce, and a full valuation is therefore not possible. However, the total value to BCE of these acquisitions, adjusted for inflation since the date of acquisition, amounts to roughly \$1.7 billion, or \$2.18 per BCE share. The realizable current market value could be significantly different.

### **The Bell Alliant transaction will boost dividend payments**

BCE announced on July 23 that it intends to acquire all the shares that it does not already own in Bell Alliant for around \$3.95 billion. Subject to further regulatory approvals, the transaction is expected to close by November 30. BCE expects the transaction to generate annual free cash flow accretion of approximately \$200 million a year.

Free cash flow is important for the payment of dividends, and BCE has a declared policy of paying dividends based on 65%-75% of free cash flow. My estimate is that this transaction could add roughly \$0.26 of free cash flow per share and \$0.18 per share, or 7%, to the annual dividend. It will make the share even more attractive from a dividend investor's perspective.

### **BCE is more than just a dividend champion**

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 Bell Alliant transaction should support further growth in the dividend from 2015 onwards. Apart from the dividend, BCE also has a valuable portfolio of private assets that could be monetized at an appropriate time, adding further value for shareholders.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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