Why BCE Inc. Is a Dividend Champion for Every Investor's Portfolio

Description

The telco industry is a competitive business. Over recent years, it's seen many of the traditional facets of its economic moat such as steep barriers to entry eroded by deregulation and rapidly growing technology. This has seen a flurry of activity in the sector over the last two decades, with a range of new entrants challenging the competitive advantage held by industry incumbents like **Rogers Communications Inc.** (TSX: RCI.B)(NYSE: RCI) and **BCE Inc.** (TSX: BCE)(NYSE: BCE).

In fact, some of these new entrants, **Telus Corp.** (TSX: T)(NYSE: TU) and **Shaw Communications Inc.** (TSX: SJR)(NYSE: SJR) have grown to become major service providers in their own right. They are now members of the S&P TSX 60 Index, which contains Canada's 60 largest publicly listed companies, and are challenging the supremacy of Canada's oldest telcos.

Despite these challenges, I believe BCE stands out as the pick of the bunch, with it still retaining a credible economic moat by virtue of its size coupled with solid growth prospect, a key addition to any investor's portfolio. Let's take a closer look at the reasons why BCE should be a core holding in every investor's portfolio.

Retains dominant market share

BCE has the largest number of subscribers of any telco in Canada, with 13.7 million wireless subscribers and 7.3 million wireline subscribers at the end of the second quarter of 2014, giving it a total of 21 million subscribers.

This is significantly superior to Rogers' 14.7 million, Telus' 13.4 million, and Shaw's 6.2 million subscribers. More importantly, BCE continues to see its higher-revenue subscribers for wireless, Internet, and TV subscriber base grow at a faster rate than its major competitors. For the second quarter, total growth services subscribers grew an impressive 2.9% year over year, whereas Roger's remained flat, Telus' grew 1.9%, and Shaw's declined 2.7%.

This solid growth in higher-margin customers bumped net earnings for the same period by an impressive 5.4% year over year, while EBITDA, a measure of core profitability, jumped 3.8% year over year.

I expect to see BCE to continue to grow its bottom line over the long term, with the company focused on a range of initiatives underway to garner new subscribers, retain existing subscribers, and more efficiently manage capital. This includes expanding its fiber cable network across Ontario and Quebec, increasing the suite of services available across its wireless, TV, and Internet offerings, and improving customer service.

BCE has also elected to privatize **Bell Aliant Inc.** (TSX: BA) by acquiring all of the issued and outstanding common shares of Bell Aliant it doesn't own. The acquisition will provide a range of benefits by simplifying its corporate structure and increasing operating and capital investment efficiencies while supporting BCE's broadband investment and dividend growth strategies through strong free cash flow accretion.

How good is that dividend?

Impressively, BCE has been paying dividends since 1949 and now offers investors a juicy yield of 5% coupled with a sustainable payout ratio of 93%. This dividend yield is superior to its major competitors — higher than Rogers' dividend yield of 4% as well as Shaw's and Telus' 3.9%.

Furthermore, long-term cash flow growth and a firmer bottom line due to BCE's economic moat will continue to support this yield.

It is for all of these reasons that BCE qualifies as a dividend champion, a core addition to any investor's share portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:SJR (Shaw Communications Inc.)
4. NYSE:TU (TELUS)
5. TSX:BCE (BCE Inc.)
6. TSX:RCI.B (Rogers Communications Inc.)
7. TSX:SJR.B (Shaw Communications)
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