



## BCE Inc.: Is This the Safest 5% Dividend Around?

### Description

**BCE Inc.** ([TSX: BCE](#))([NYSE: BCE](#)) announced solid third-quarter results, highlighting again its growth potential and attraction as a reliable investment for income-seeking investors. However, considerable expenditure on acquisitions and increased debt levels raise questions about the sustainability of the dividend stream.

### Second-quarter profit surprises the sceptics

Adjusted net profit for the third quarter of the 2014 fiscal year amounted to \$648 million, which was 11% higher than the year before. EBITDA, as a key performance measure increased by 2.5% and adjusted profit per share amounted to \$0.83 or 11% higher than the year before.

Revenues increased by 1.9% during the quarter driven by a good performance from the Bell wireless division while operating costs were well controlled with a 1.4% increase. The company also declared a 6% increase in the quarterly dividend to \$0.6175 per share. This result was better than expected by the market consensus.

### Wireless the star performer... again

The Bell wireless segment had an excellent quarter with revenue increasing by 7% and EBITDA by 11% to \$684 on the back of a 1.1% increase in subscribers and a 5.9% jump in the average revenue per user. Positive developments were the 2.8% increase in the number of post-paid users, which carries considerably higher average revenues than prepaid users, as well as wireless data revenue, which has grown by 21% so far this year.

In the wireline division, the secular decline in local and international fixed phone lines continued with network access line connections 7.1% lower than a year ago. However, high speed internet connections (+3.9%) and TV connections (+4.9%) fared much better. EBITDA in this division increased slightly by 1.0% to \$932 million despite a small decrease in revenue.

The media division reported an 8.5% decline in quarterly EBITDA to \$182 million mainly as a result of lower advertising revenues. The year-to-date result was better with a 20% EBITDA increase, mostly

explained by the acquisition of the French language-focused TV and radio broadcaster, Astral, in July 2013.

The quarterly EBITDA profit of \$317 million at Bell Aliant was 2.2% lower than last year. TV, wireless, and the internet performed well but local and long distance phone services were a drag on profits.

### **Excellent cash flow but the debt levels increased**

Operating cash flows jumped by 8.8% during the quarter and despite higher capital expenditures, free cash flow increased to \$1.9 billion so far this year. This is good news for income investors as discussed below.

BCE also concluded the acquisition of the minority-owned shares in Bell Aliant for a total cost of \$3.95 billion, partly financed with BCE shares and partly with \$1.0 billion of cash. This will add around 7% to the issued shares of BCE while pre-tax annual synergies of approximately \$100 million and annual free cash flow accretion of approximately \$200 million a year, is expected.

The balance sheet has deteriorated somewhat with net debt increasing to \$21 billion (4%) since the start of the year due to the acquisition of 700 MHz wireless spectrum assets and the cash expense of the Bell Aliant acquisition. The debt-to-capital ratio at 58% is somewhat on the high side but should decline over time as a result of the increased cash flow from the Bell Aliant acquisition.

### **The main attraction is in the dividend**

The main attraction for many investors in this company is the consistent and growing dividend payments as well as the very attractive yield of 4.8% on the current price. BCE has an excellent dividend payment track record and increased the dividend by 5% per year since 2000.

BCE is a cash-generation machine and despite a heavy ongoing capital expenditure program and the increased debt load, should be able to grow the dividend payment at the historic rate for the foreseeable future. Solid results and the very attractive dividend yield will keep investors interested.

## **CATEGORY**

1. Dividend Stocks
2. Investing

## **TICKERS GLOBAL**

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

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