Why BCE Inc. Is the Best Big Dividend Stock to Own

Description

In Canada, numerous companies offer very big dividends. Many of these can be found in the energy sector. And when investing, it can be very tempting to go for these names – after all, as long as the payouts don't get cut, you can get extra money in your pocket.

That being said, it is usually better to go for a growing dividend. Why? Well, most companies with high yields are struggling, or pay an unsustainable dividend, or both. If you don't believe me, just look at the energy sector.

But even outside of energy, you should probably avoid the highest-yielding names. To illustrate, **AGF Management Ltd.** (TSX: AGF.B) was yielding roughly 9% before slashing its dividend by 70% today. As of this writing, the stock is down by 17% in response.

So if you're looking for some extra dividend income, what should you do? Look for companies with reliable, predictable income. These companies should also pay out a manageable dividend. Unfortunately, few such companies exist in Canada. But one in particular you should consider is **BCE Inc.** (TSX: BCE)(NYSE: BCE).

The numbers

BCE's dividend currently stands at $0.6175 per quarter, or $2.47 per year. As of this writing, that works out to a yield just under 4.8%. This payout also seems to be very manageable for BCE. Over the past 12 months, the company has earned just under $3 per share, resulting in a payout ratio of just under 85%.

What makes the dividend so stable?

First of all, telecommunications companies in Canada tend to be very stable. They face limited competition, are protected by high barriers to entry, and benefit from subscription-based revenue. So as a result, revenue tends to be very stable. BCE is a perfect example of this. In 2010, the company made $18.1 billion in revenue, then $19.5 billion in 2011, then $20.0 billion, and $20.4 billion last year.

And as can be seen above, the company has limited growth ambitions. Sure, there are opportunities from increased data usage in Canada, and the company has made some small acquisitions too. But you don't see any brash international expansion plans (at least not since 2000). For this reason, the company is happy to pay out most of its earnings to shareholders, which is where the high yield comes from.

Just look at the alternatives

Seven companies in the **S&P/TSX 60** have a higher dividend yield than BCE. Five of them are energy producers. The other two – **Teck Resources Inc.** and **TransAlta Corporation** – are also very risky; their shares have each dropped by more than 50% over the past three years.

In fact, the next three highest yields on the TSX 60 are also commodity producers. So if you don't go with BCE shares, you'll have to accept a yield of 4% or lower. To be fair, some of these lower yielders are very good options. But if you're looking for extra income, BCE is the answer.

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