Why Every Investor Should Consider BCE Inc. in 2015

Description

The rout among oil stocks continues as the price of crude continues to plumb new lows because of growing global supplies and declining demand. This has seen a number of the highly attractive dividend yields in the energy patch slashed as oil companies found them to be unsustainable in the current operating environment. This caught many investors off guard, believing these monster yields, many well over double-digits, were sustainable.

Yet more surprisingly, success in dividend investing is relatively simple and one Canadian company which I believe possesses all of the characteristics of solid dividend stock is Canada's largest telecommunications provider **BCE Inc.** (TSX:BCE)(NYSE:BCE).

These characteristics can be easily distilled into three key points.

First, unlike oil explorers and producers, BCE's earnings remain relatively immune to macro-economic volatility.

BCE's business is extremely difficult for a competitor, especially a new entrant to the telecommunications industry to replicate. This is because of its size and the scale of its business coupled with the significant capital investment required and the steep regulatory barriers to entry. Each of these characteristics serves to protect BCE's competitive advantage.

But another important contributor is the relatively inelastic demand for BCE's products and services, which are an important part of our lives and business in the information age.

Second, BCE continues to focus on expanding its franchise and improving its operating structure.

In the last year, BCE completed a range of activities aimed at expanding its business franchise. This included the acquisition of Glentel Inc., a retailer of smartphones, which strengthened its retail distribution footprint in Canada. This allows BCE to more easily grow its subscriber base particularly for post-paid voice and data plans, which are a core means of growing revenue.

It also completed the privatization of its subsidiary Bell Aliant Inc., which is expected to generate approximately $100 million in pre-tax annual cost savings.

Both of these moves leave BCE well positioned to continue growing revenues from its subscriber base while reducing costs, which should see improved margins thereby boosting profitability.

Finally, BCE continues to maintain a sustainable yet steadily increasing dividend payment.

While many of the monster dividend yields in the energy patch were predicated on the assumption of making acquisitions to boost cash flow and steadily growing crude prices in order to maintain their funding, BCE has shied away from such an aggressive dividend strategy.

Instead it maintains a long-term dividend payout ratio of less than 100% of its net income. This makes BCE's dividend particularly sustainable and leaves plenty of room for it to hike its dividend should its financial results be stronger than expected. At this time, BCE's dividend yields 4.6% coupled with a sustainable payout ratio of 84%.

But more impressively and a testament to the company's core strengths is that it has hiked its dividend for the last six consecutive years. And that even includes hiking the dividend during the global financial crisis when most companies were slashing or even terminating their dividend payments.

It is easy to see why BCE is a superior dividend investment compared to any of the monster yields which were available in the patch, particularly when the resilience of its business is considered. This I believe makes it a core holding for any investment portfolio particularly with a 4.6% yield coupled with its share price having grown by 93% over the last decade.

CATEGORY

1. Investing
2. Tech Stocks

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Author
mattdsmith