BCE Inc.: Great Dividend, but Can it Become a Growth Stock?

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) announced solid fourth-quarter results, highlighting again its growth potential and attraction as a reliable investment for income-seeking investors. The spectacular growth in mobile data services and high speed internet connections is filling the gap left by the secular decline in landline services.

A sound financial performance in 2014

Adjusted net profit for the 2014 fiscal year amounted to $2.5 billion, which was 9% higher than the year before, while adjusted profit per share amounted to $3.18, or 6% higher than the year before.

Revenues increased by 3% during the year driven by a good performance at Bell wireless, and operating costs were reasonably well controlled with a 4% increase.

The fourth quarter delivered an earnings per share of $0.72, which was 3% better than the same quarter the previous year and in line with the market consensus expectations. The company also declared a 6% increase in the quarterly dividend to bring the total to $2.47 per share for the full year.

Wireless the star performer… again

The Bell wireless segment had an excellent quarter, with revenue increasing by 10% and earnings before interest, taxes, depreciation, and amortization (EBITDA) increasing by 11% to $585 million on the back of a 2.4% increase in subscribers and a 6% jump in the average revenue per user. Positive developments were the 4.6% increase in the number of post-paid users, which carries considerably higher average revenues than prepaid users, as well as wireless data revenue (that is, mobile internet use, video streaming, and gaming), which improved by 26% in 2015.

In the wireline division, the secular decline in local and international fixed phone lines continued, with network access line connections 6% lower than a year ago. However, high speed internet connections (+5%) and TV connections (+6%) fared much better. EBITDA in this division increased by 2% to $953 million for the quarter, although the annual profit was slightly lower than the previous year.

The media division reported a 17% decline in quarterly EBITDA to $192 million, mainly as a result of soft advertising revenues in conventional television, higher costs for sports rights, and start-up costs for Crave TV. BCE also reports that the world championship game of the junior hockey tournament, broadcasted on TSN, set an all-time record of 7.1 million viewers for Canadian specialty television.

The quarterly EBITDA profit of $292 million at Bell Aliant, now fully owned by BCE, was 4% lower than last year. TV, wireless, and the internet performed well, but local and long-distance phone services provided a drag on profits.

Excellent cash flow but the debt levels increased

Operating cash flows increased by 3% during the year, but as a result of higher capital expenditures, free cash flow declined slightly to $2.4 billion. The ongoing strong cash generation is good news for income investors as the dividend is linked to free cash flow.

The balance sheet deteriorated somewhat, with net debt increasing to $22 billion (6%) since the start of the year due to the acquisition of 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 and additional benefits from the spectrum assets.

Outlook for 2015

BCE also announced its projections for 2015, with earnings per share expected to grow by 3%-6% and free cash flow by 8%-15%, resulting in an expected dividend of $2.60 per share, which will represent an increase of 5%.

The main attraction is in the dividend but growth remains solid

The main attractions for many investors in this company are the consistent and growing dividend payments and the very attractive yield of 4.4% on the current price. BCE has an excellent dividend payment track record, and it has 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, it should be able to grow the dividend payment at the historic rate for the foreseeable future. The declining landline business is currently a drag on profits, but the growth dimensions of the business, including mobile data and broadband internet services, will keep the growth rate positive.

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