

Should You Buy, Sell, or Hold BCE Inc.'s Stock Following its Q4 Earnings Beat?

Description

BCE Inc. ([TSX:BCE](#))([NYSE:BCE](#)), Canada's largest communication company, announced its fourth-quarter earnings on the morning of February 5, with both earnings per share and revenue coming in above analysts' expectations, and its stock has reacted by moving higher. Let's take a thorough look at the quarterly results and the company's outlook on fiscal 2015 to determine whether we should consider initiating long-term positions today or if we should wait for a better entry point in the trading sessions ahead.

The strong fourth-quarter results

Here's a summary of BCE's fourth-quarter earnings compared to what analysts had anticipated and its results in the same period a year ago.

Metric	Reported	Expected	Year Ago
Earnings Per Share	\$0.72	\$0.71	\$0.70
Revenue	\$5.53 billion	\$5.45 billion	\$5.38 billion

Source: *Financial Times*

BCE's earnings per share increased 2.9% and its revenue increased 2.7% compared to the fourth quarter of fiscal 2013, driven by net income increasing 9.5% to \$542 million and revenue increasing 2.6% to \$4.94 billion in its Bell Media segment, including a 6.8% increase in product revenues and a 2.2% increase in service revenues. The company also noted that it activated 118,120 new BCE wireless postpaid customers during the quarter, bringing its total number of postpaid customers to 6,986,196, an increase of 4.6% from the year-ago period.

Here's a quick breakdown of eight other notable statistics and updates from the report compared to the year-ago period:

1. Total wireless subscribers increased 2.4% to 8,118,628.
2. Total TV subscribers increased 6.2% to 2,642,608.
3. Total high-speed Internet subscribers increased 5.1% to 3,297,026.
4. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 1.2% to \$2.02 billion.
5. Adjusted EBITDA margin contracted 50 basis points to 36.6%.
6. Cash flows from operating activities decreased 16.9% to \$1.53 billion.
7. Free cash flow increased 23.6% to \$833 million.
8. Free cash flow per share increased 17.4% to \$1.01.

BCE also announced a 5.3% increase in its annual dividend to \$2.60 per share, and the first quarterly installment of \$0.65 will be paid out on April 15 to shareholders of record at the close of business on

March 16. This marked the eleventh time the company has increased its dividend in the last six years, showing that it is strongly dedicated to maximising shareholder value.

Lastly, BCE provided its outlook on fiscal 2015, calling for the following performance compared to fiscal 2014:

- Adjusted earnings per share in the range of \$3.28-\$3.38, an increase of 3.1%-6.3% from the \$3.18 earned in fiscal 2014.
- Revenue growth in the range of 1%-3%.
- Adjusted EBITDA growth in the range of 2%-4%.
- Free cash flow growth in the range of 8%-15%.
- Annual common dividend per share of \$2.60, an increase of 5.3% from the \$2.47 dividend paid per share in fiscal 2014.

What should investors do with BCE's stock today?

BCE is the largest communication company in Canada, and increased demand for its products and services led it to a very strong fourth-quarter performance, and its stock has responded to the earnings release by rising over 1%.

Even after the slight post-earnings pop in BCE's stock, I think it represents a great long-term investment opportunity because it still trades at inexpensive forward valuations and because it pays a high dividend. As of today, the company's stock trades at just 17.7 times its median earnings per share outlook on fiscal 2015 and only 17.2 times analysts' estimated earnings per share of \$3.42 for fiscal 2016, both of which are inexpensive compared to its trailing 12 months price-to-earnings multiple of 18.5. Also, the company now pays an annual dividend of \$2.60 per share, giving its stock a very generous 4.4% yield, and this makes its stock both a value and dividend play today.

With all of the information above in mind, I think BCE represents the best long-term investment opportunity in the communications industry, so investors should take a closer look and strongly consider initiating positions today.

CATEGORY

1. Dividend Stocks
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