Why BCE Inc. Is the Most Expensive Telco Stock in North America

Description

There are few dividend stocks in Canada as popular as **BCE Inc.** (TSX:BCE)(NYSE:BCE). And it's easy to see why. After announcing yet another dividend hike on Thursday, the company yielded a solid 4.6% by the end of the week. In today's low-yield environment, it's hard to find such a nice yield from such a stable company.

But not everyone is on board. On Monday, analysts at **TD** and **National Bank** both cut their rating on BCE to sell. Why did they do this? And how should you react? Below we take a look.

The valuation is just too high

Based on its recently posted numbers, BCE trades at a very healthy 19 times earnings. For many companies, such as those that are growing quickly, that's not too unreasonable. But BCE operates in a very mature industry — to illustrate, its revenues have grown by only 3.5% per year since 2009.

To put this in a better context, BCE has traded at an average of 13.2 times earnings over the last decade. And the TD analyst pegged BCE as the most expensive telecommunications stock in all of North America. He sees no justification for such a high share price.

So why are the shares trading so high?

To BCE's credit, the company has done some things very well. Subscriber numbers for its wireless, TV and Internet businesses are strong. Its free cash flow rose by 6.7% last year, including 23.6% in the final quarter. And the company has raised its dividend 11 times in the past six years.

But there's another big reason why BCE shares have climbed so much: a lack of alternatives. To be more specific, a lot of dividend investors got burned recently as energy companies cut their dividends. At that point, many were looking for a safer option.

And if you screen for high-yielding dividends, BCE's is probably the safest you can find. After all, only four companies on the S&P/TSX 60 have higher yielding dividends than BCE, and none of them make enough earnings to cover the dividend.

What should you do as an investor?

It's clear that BCE has become very expensive and not entirely for the right reasons. But then again, it's a very solid dividend stock with quite a nice yield. So what should you do?

Well, that depends on what your goals are. If you're in retirement and are looking for some steady income, BCE stock is a great alternative to the incredibly low interest rates we're seeing today.

But if you're like me and are looking for longer-term growth, your best bet is to listen to these analysts and look elsewhere.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date
2025/07/22
Date Created
2015/02/12
Author
bensinclair