Should You Buy BCE Inc.? That Depends on Who You Are

Description

There's no denying that shareholders of **BCE Inc.** (TSX:BCE)(NYSE:BCE) have done well for themselves. Over the past five years, the company has seen its stock price more than double, all while paying a pretty juicy dividend.

So, is it too late to buy BCE shares? Should you add this company to your portfolio? Well, that depends on what kind of investor you are.

Perhaps Canada's best dividend stock

BCE is a favourite among dividend investors, and for good reason. As of this writing the shares yield 4.8%, good enough for fifth place on the **S&P/TSX 60**.

The top four dividends are not very secure. Two come from energy companies, and another comes from **TransAlta Corporation**, a company that slashed its dividend by 38% in 2014. The final dividend comes from **Teck Resources Inc.**, a troubled miner that will probably cut its payout soon.

BCE is on much firmer ground. The company faces limited competition and generates very stable revenue. Better yet, Canadians are consuming ever-increasing amounts of data, increasing the demand for BCE's services. So, that dividend looks very safe.

The most expensive telco in North America

Unfortunately, there's a price to be paid for such a quality dividend. BCE currently trades at 18 times earnings, which is very expensive for a company with limited growth opportunities. In fact, one analyst called it "the most expensive telco stock in North America."

Normally, it's very difficult for expensive stocks to have high dividend yields. After all, when a company's stock price goes up, that reduces the dividend yield. BCE is an exception precisely because it pays out nearly all of its earnings to shareholders.

To illustrate, last year it made just under $3 per share in net income, and this year it will pay out $2.60

per share. By comparison, even the big five banks (which are often thought of as dividend machines) pay out less than half.

Whenever a stock is this expensive and there's so little growth, the stock can only go up so much. In other words, while shareholders can expect a nice dividend, they shouldn't expect much else.

Who should buy this stock?

By now, it should be obvious who should own BCE: investors who only care about dividends. For example, if an investor is thinking about buying bonds, BCE would make for a much better alternative. A lot of retirees would also fit this mould.

As for the rest of us, we should focus on trying to find truly undervalued companies. That probably means looking elsewhere.

CATEGORY

1. Investing

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