



3 Reasons I Don't Own BCE Inc.

Description

BCE Inc. ([TSX:BCE](#))([NYSE:BCE](#)) is one of Canada's most popular dividend stocks, and it's easy to see why. The company pays out nearly all of its income to shareholders, resulting in a yield of nearly 5%. Better yet, the company generates very smooth profits, meaning there's little risk of that dividend getting cut.

That said, there are some serious reasons to dislike BCE.

1. It is expensive

BCE shares have been on a strong run, from the low \$40s in August 2013 all the way up to \$60 at one point in early February. At the same time the company itself wasn't really growing; revenue has been relatively flat for years, and earnings per share actually declined from 2012 to 2014.

As would be expected, BCE's shares started to look pretty expensive, something that didn't go unnoticed. In fact, an analyst from TD Securities called it "the most expensive telco stock in North America."

Over the past few months, the stock price has fallen back a bit and sits at roughly \$55 as of this writing. But even at this price, BCE still trades for more than 19 times earnings. By comparison, both **Rogers Communications Inc.** and **Telus Corporation** both trade for less than 18 times earnings. The Big Five Banks are even cheaper, trading for no more than 13.4 times earnings.

2. It has few growth prospects

A high valuation would be justified if BCE had lots of room for growth, but that's not the case at all. Local telephone services still account for over a third of subscriptions, and this is a shrinking business. In fact, last year the decline in landline telephone subscriptions almost completely canceled out subscriber growth in all other areas.

Last year's (lack of) growth numbers tell the story. Total subscribers grew by 0.2%. Operating revenues grew 3.1%. And adjusted EBITDA grew by only 2.6%.

I'm not saying the company is doing a bad job. But there are few opportunities for BCE to meaningfully grow, making that 19 times earnings multiple look very unreasonable.

3. It is unpopular with customers

It's no secret that Canadians have a love-hate relationship with their telecom providers. In the past Rogers has been the worst offender, and the data backed this up. In late 2013 it was the subject of more formal complaints (made to the Commissioner for Complaints for Telecommunications Services) than any other telco, even though BCE had more subscribers. This has cost Rogers dearly over the last year—subscribers have left, causing the company to post disappointing numbers.

But through it all Rogers has improved its customer service dramatically, reducing its complaint totals by nearly a third. BCE's complaints have also come down, but by only 7%. As a result, it is now the most complained-about telco in Canada.

So, BCE could be next to post disappointing numbers. And on June 3rd, Canadian consumers will have more freedom to switch providers than ever before thanks to the implementation of some new regulations. Thus, things could get very messy for BCE.

CATEGORY

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