Why BCE Inc. Could Surge to $60 Per Share by Next Year

Description

Investors across Canada are very worried about the country's economic outlook, and for good reason. It now appears that we are in recession, which will have wide-reaching consequences for all sectors of our economy. With that in mind, should we just sell all of our Canadian stocks today?

Well, not necessarily. There are some companies that will certainly withstand and may even benefit from the current environment. One of the first that pops to mind is **BCE Inc.** (TSX:BCE)(NYSE:BCE).

A rock-solid business model

Canada's Big Three telecommunications providers are in an enviable position. They make money off of subscriptions, ensuring that revenues stay nice and smooth. They face limited competition. They are protected by high barriers to entry. They benefit from Canadians' growing thirst for data. And most importantly, they provide critical services. So, even if the economy is struggling, their revenues won't take much of a hit.

Just look at what happened during Canada's last recession, which coincided with the U.S. economic crisis. BCE's revenue declined by just 0.3% in 2008, and increased in the years thereafter. So, even if Canada's economy goes through some rough patches again, you should expect BCE to remain unscathed.

Lower interest rates will help

Numerous economists are calling for Bank of Canada Governor Stephen Poloz to cut interest rates, as he did in January. This would be a nice boost for BCE, especially if low rates persist for a long time.

The company is saddled with over $21 billion in debt, so even the slightest decrease in borrowing costs would make a big difference to the bottom line. If it declined by just 0.25%, BCE's pretax income would increase by more than $50 million per year.

So, if Canada is in recession, and remains there for a long time, and Mr. Poloz responds in kind, BCE could actually benefit. That should be music to any investor's ears.

The dividend looks better and better

BCE pays out practically all of its income to shareholders, and as a result the company has a big dividend. This dividend yields about 5%, a very strong number for a dividend that's doubled in the past decade.

If Canada suffers from a long recession, and interest rates are reduced as a result, then BCE's dividend could become ever more popular. This would lead to an increase in BCE's share price.

To illustrate, if BCE's dividend increases by another 5% in the next year, then yields 4.5%, its share price will exceed $60. That's well above today's price of $53, and something that BCE's shareholders hope will come about.

CATEGORY

1. Investing

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1. NYSE:BCE (BCE Inc.)
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