BCE Inc.: 1 of Canada’s Best-in-Class Dividend-Growth Stocks

Description

Sensational headlines and cyclical trends far too easily catch the attention of investors, encouraging them to trade too frequently, almost always to the detriment of their financial health. I believe that for the long haul it is far better to take a disciplined and patient approach by investing in well-known companies with easily understood businesses and wide economic moats.

These types of companies are also typically among the leaders in their industries and have a solid history of rewarding investors through share buybacks and regularly growing dividend payments.

One company that has these qualities and more is Canada’s largest telecommunications provider **BCE Inc.** (TSX:BCE)(NYSE:BCE).

Now what?

BCE has built an impressive business that is almost impossible to replicate because of its scale and breadth. It offers the full suite of telecommunications services in a data- and entertainment-hungry age, including traditional wireline, wireless, high-speed Internet, and pay TV offerings.

The investment required to duplicate these product offerings and supporting infrastructure is tremendous. It is also highly unlikely that investors would receive any return on such an investment for a considerable period, because of the long lead-in time needed to acquire and construct the required supporting infrastructure.

BCE also operates in a heavily regulated oligopolistic industry where it, along with peers **Rogers Communications Inc.** and **Telus Corp.,** is generally the dominant party.

These characteristics give BCE a wide multifaceted economic moat that protects its competitive advantage and virtually guarantees slow but steady long-term earnings growth. The strong secular growth trends driven by the demand for mobile data, along with the growing thirst among Canadians for access to faster Internet and the latest entertainment, further bolsters BCE’s growth prospects.

These characteristics have supported the steady growth in BCE’s financial performance over recent years, with EBITDA having a five-year compound annual growth rate of 3% while net earnings is 4%. While this may not be overly spectacular, it certainly shouldn't be sneezed at. BCE possesses the ability to deliver this type of growth year after year, almost irrespective of the state of the business cycle.

We can see this when we drill into BCE's latest results, where both adjusted EBITDA and earnings per share popped by almost 4% year over year for the first quarter 2015, despite the growing impact of the oil rout on Canada's economy. More importantly, during that period customer connections for BCE's growth services, including wireless, high-speed Internet, and pay TV grew by almost 4%.

It is all of these characteristics that have supported the impressive growth of BCE's dividend, which the company has hiked every year since the Global Financial Crisis, giving it an impressive 7% compound annual growth rate over the last 10 years. BCE yields a very juicy 5% with the expectation that it will continue to grow because of its wide economic moat and solid growth prospects.

So what?

Given its dominant position in an increasingly mature industry, I don't expect BCE to "shoot out the lights" in coming years, but it is easy to see its share price maintaining its 10-year compound annual growth rate of 6%. When this is coupled with a dividend that is growing at a similar rate, it provides investors with a particularly handy combination of capital growth and income, making BCE a core long-term holding.

CATEGORY

1. Investing
2. Tech Stocks

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