Is BCE Inc. Canada's Best Dividend Stock?

Description

It's easy to see why the telecom sector has been among the favourites for investors over the years.

It has the same sort of customer stability that utilities commonly enjoy, but with a much greater flexibility to increase prices. Yes, many people are cutting the cord and doing without home phone or cable television, but these folks are still very much in the minority. And many telecoms are making up for the small declines in those markets by growing both their Internet and wireless businesses.

Of course, Canada has many different telecoms, each with their own pros and cons. Here's why I think dividend investors should be the most interested in **BCE Inc.** (TSX:BCE)(NYSE:BCE).

Great current payout

When **Manitoba Telecom** recently cut its quarterly dividend from $0.425 to $0.325 per share, BCE took over the title as the telecom with the highest current yield. As I type this, shares yield 4.8%. To put that in perspective, that's approximately twice as much as the 10-year Government of Canada bond yields.

But even though the payout is close to 5%, the payout ratio isn't ridiculously high. BCE earned $2.82 per share over the last 12 months, while paying out $2.56 per share. That's a payout ratio of approximately 90%, which indicates to me that the dividend is comfortably sustainable.

And remember, the company is expected to grow earnings over time. In 2015 analysts expect BCE to earn $3.34 per share, and in 2016 analysts think BCE's earnings will increase to $3.50 per share. That puts shares at 16.1 and 15.4 times each of these estimates, which indicate shares are relatively attractive at today's price.

It also puts the company's payout ratio at approximately 76% of 2015's earnings, which gives it ample room to deliver another raise for shareholders.

Great growth

Another thing investors love about BCE's dividend is the consistent dividend growth.

At the end of 2005 BCE was paying investors $0.30 per share as a quarterly dividend, which it had held consistently since the late 1990s. That means that dividends have grown at a rate of approximately 8% per year for the last decade.

I don't know about you, but I don't know many people who have gotten that kind of consistent raise at work.

Great results

The best part about BCE and its dividend is there's every indication that the terrific payout (and the annual dividend raises) will continue.

During its most recent quarter, BCE increased revenue from its wireless division by nearly 10%, and managed to increase television and Internet subscribers by more than 5% and 4%, respectively. The only part of the business that showed any weakness at all was the wireline telephone division. Even the media division managed to show a bit of growth.

BCE is able to deliver these results because of the unbeatable assets it owns. Its media properties (like CTV, TSN, and The Globe and Mail) are among the best in the country. Its wireless network has great coast-to-coast coverage. And its Fibe television service continues to steal subscribers from competitors.

One of the reasons why a foreign competitor has never entered Canada's wireless space in a big way is because of the strength of the incumbent telecoms. BCE has millions of wireless subscribers and has spent billions over the years building out its network. It's really hard to compete with that.

That's the crux in investing in a company like BCE. Investors should continue to enjoy generous dividends from the company because it has the pricing power necessary to pass on price increases to customers. Combine that with its oligarchy-like status and generous payout, and it's easy to see why it's such a popular choice for income investors.

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