Why BCE Inc. Is the Best 5% Dividend You Can Find on the TSX 60

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) is one of Canada's most popular dividend stocks, and for good reason. As of this writing, the shares yield 5.0%, not bad for such a stable company. In fact, there's a strong argument this is the best 5% dividend you can find in the **S&P/TSX 60**. We take a closer look below.

The criteria

For a dividend to be truly secure, it must satisfy two important criteria.

First, the company in question must have strong long-term prospects. If a business is extremely cyclical, or is especially vulnerable to competition, you can't truly count on its dividend. The same can be said for extremely cyclical companies, or those that have too much debt. For example, you shouldn't count on the dividends of most commodity producers.

Secondly, the dividend must not exceed the earnings power of the company paying it. This should be fairly common sense; if a company is making $3 per share in profits but paying $4 to shareholders, then that doesn't bode well for the dividend long term.

The companies ahead of BCE

It's safe to say that BCE's stock is fairly secure. The company faces very limited competition, and revenue is very smooth. Canadians are demanding more mobile data every year, a big plus for the company. BCE's services are not overly cyclical either. And perhaps most importantly, BCE's $3 per share in income is enough to cover its $2.60 annualized dividend.

The same cannot be said for the seven higher-yielding companies on the TSX 60. To start, three of them are oil producers. **TransAlta Corporation** should also be approached with caution, given its troubled history. Two of the names are pipeline operators—**Inter Pipeline** and **Pembina Pipeline**—but both of them pay out more in dividends than they earn in profits. That leaves **Potash Corp./Saskatchewan**, another company that has experienced some wild ups and downs in recent years.

Does this mean you should buy BCE?

If you're looking to generate some steady income from your savings, BCE is a fantastic way to do so. After all, with 10-year government bonds yielding 1.43%, a 5% dividend looks pretty good. It looks even better when comparing the company with other high-yielding names.

As for the rest of us, you should probably look elsewhere. BCE has limited growth prospects, and thus prefers to pay the vast majority of its income to shareholders. Of course, this makes the stock very popular with income-oriented investors, which has driven up the company's share price. In fact, one analyst recently called BCE "the most expensive telco stock in North America."

So, there's not much potential for big capital gains with this stock. Thus, your decision to buy BCE should depend on how much you value a top-quality dividend. It's as simple as that.

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