4 Reasons Why BCE Inc. Should Be a Core Holding in Every Portfolio

Description

Like Warren Buffett, who once said “Only buy something that you’d be perfectly happy to hold if the market shut down for 10 years,” I am a firm believer that one of the easiest ways to achieve investing success is to invest for the long term. When selecting long-term investments it is always important to select those companies with wide economic moats and businesses that remain current as well as easy to understand.

One business that I believe meets that criteria and more is Canada’s largest telecommunication provider **BCE Inc.** (TSX:BCE)(NYSE:BCE).

Now what?

BCE possesses a number of attributes that ensure it will continue to grow and reward long-term investors through capital appreciation and a steadily growing, sustainable dividend.

Firstly, BCE operates in an oligopolistic industry where, along with **Rogers Communications Inc.** and **Telus Corporation**, it holds a dominant market share.

The top three incumbents control about 90% of the lucrative Canadian mobile phone market as well as the majority of other telecommunications services. As a result, they are able to act as price makers rather than price takers, helping to protect their earnings and endowing them with a wide economic moat.

Secondly, the scale and breadth of BCE’s business is almost impossible to replicate.

The capital-intensive nature of the telecommunication business means that a substantial amount of capital is required to build a national telecommunications provider and wireless network. Then you have the long lead time required to assemble the network and supporting businesses. This makes it likely that investors would receive little to no return on their investment for a considerable period, making it an unattractive investment for all but the largest telcos such as **Verizon Communications Inc.**

However, Canada's heavily regulated and over-saturated telecommunications market is certainly not an attractive investment for major global telcos looking to expand their operating footprint. There's also steep regulatory barriers to entry that make it extremely difficult for any competitor to enter the market because they are required to meet a range of stringent regulatory requirements.

As a result, BCE's business is extremely difficult to replicate, giving it a wide multifaceted economic moat that protects it from competition and helps to shield its earnings.

Finally, telecommunications and high-speed data access in particular is now an integral part of business and leisure in the digital age.

I expect demand for high-speed data to continue growing as we become ever more dependent upon digital products and data for conducting business and entertainment. This will act as a powerful secular tailwind for BCE and the other major telcos, helping to boost earnings growth and shield existing earnings from any downturn in the economic cycle.

So what?

Since the advent of deregulation and rapid technological change, which has stripped away many of the defensive characteristics of telcos, each of these attributes endows BCE with solid defensive characteristics. They are also key reasons for it being able to continue growing earnings and regularly hike its dividend for the last seven straight years, which now pays a juicy 5% yield.

I also expect earnings to continue growing not only for the reasons discussed, but also because BCE remains focused on growing its core wireless and data business along with implementing a range of strategies to boost efficiencies. This makes BCE a long-term core holding in any portfolio.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)

Category

1. Dividend Stocks
2. Investing
3. Tech Stocks

Date
2025/10/01
Date Created
2015/09/10
Author
mattdsmith