

Like BCE Inc. and its 5.4% Yield? Then You'll Love This Stock

Description

BCE Inc. ([TSX:BCE](#))([NYSE:BCE](#)) has long been a favourite for Canadian dividend investors.

The big reason why is because of the dependability of the company's earnings. Each month, it collects nearly \$2 billion from customers subscribing to wireless, Internet, television, and home phone plans. It also collects millions from its media subsidiaries, owning television networks like CTV, TSN, and Muchmusic. And if that's not enough for you, it also owns a large stake in Maple Leaf Sports and Entertainment, the parent company of the Toronto Maple Leafs and Raptors.

Those are some pretty fine assets.

Because the company has such dependable cash flows, BCE can pay a large percentage of its earnings out in dividends. Currently, shares of the telecom conglomerate pay a 4.8% yield. It also has a history of consistent dividend growth, even after the Great Recession.

But as good as BCE and its dividend are, I think dividend investors in the telecommunications sector should look somewhere else for their yield. Here's why I think **Corus Entertainment Inc.** ([TSX:CJR.B](#)) could end up being the better pick over the long term.

Better dividend

The current yield for Corus is an eye-popping 8.3%, which is 54% higher than BCE's payout. Amazingly enough, it's actually pretty easy to make the argument that Corus's payout is actually safer than BCE's.

The evidence comes from free cash flow. In the last 12 months, Corus has generated \$141 million in free cash, while paying out \$78 million in dividends. That's a payout ratio of just 55%. And if the company can meet its guidance and generate \$180 million in free cash flow for the year, the payout ratio drops to well under 50%.

Let's compare that with BCE's dividend. Over the last 12 months, it generated \$1.97 billion in free cash flow, while paying \$2.25 billion in total dividends. This would be concerning if it was a trend that will continue, but at least in the short term, BCE can easily borrow enough to make up the difference. Besides, the capital expenditures should lead to greater profits in the future.

Still, the numbers don't lie. As it stands now, Corus has a much better dividend than BCE.

More upside potential

While BCE trades at what I'd call a reasonable valuation, Corus is much cheaper.

Currently, BCE shares trade hands at 18.3 times earnings, which is in line with where they've traded for the last year. At least on the surface, that's a far better valuation than Corus, which actually posted

negative earnings over the last 12 months.

But since Corus is in the content business, net earnings aren't really the best metric to use for gauging its profitability. The company uses free cash flow as its primary reporting tool because it factors in the cost of amortizing acquired content, which affects earnings but not free cash flow.

From a price-to-free-cash flow perspective, Corus is one of the cheapest stocks in the market. If it manages to post \$180 million in free cash flow in 2015, it will trade at just 6.7 times free cash flow. If you look at it from a trailing-free-cash flow perspective, it trades at a slightly higher multiple of 8.5 times, which is still insanely cheap.

Even from a book value perspective, Corus shares are cheap. Most of its assets are of the intangible variety, but shares are trading right around the company's book value. BCE, in comparison, trades at more than twice its book value.

Corus is beaten up because ad spending on its networks is down. Combine that with worries that new regulations, which allow cable customers to pick and choose individual channels starting in 2016, will cut into Corus's viewership, and investors see plenty of reasons to get nervous.

But at today's valuation, investors are getting compensated quite well to take those risks. If you add in Corus's terrific dividend and potential to be re-acquired by **Shaw Communications** on the cheap, it's easy to see why Corus could end up being a huge winner for your portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:CJR.B (Corus Entertainment Inc.)

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Date

2025/07/17

Date Created

2015/09/17

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