3 Reasons Why BCE Inc. Could Continue to Outperform the Market

Description

BCE Inc. (TSX:BCE)(NYSE:BCE), the largest communications company in Canada, has widely outperformed the overall market in 2015, rising more than 7.5% as the S&P/TSX Composite Index has fallen over 9%, and I think it could continue to do so in both the short and long term. Let's take a look at three of the primary reasons why I think this will happen and why you should be a long-term buyer of the stock today.

1. Its strong earnings results could support a continued rally

On the morning of November 5, BCE released very strong earnings results for its three- and nine-month periods ending on September 30, 2015, and its stock has responded by rising about 2% in the weeks since. Here's a summary of 10 of the most notable statistics from the first nine months of fiscal 2015 compared with the first nine months of fiscal 2014:

1. Adjusted net earnings increased 16.5% to $2.23 billion
2. Adjusted earnings per share increased 7.3% to $2.64
3. Operating revenues increased 2.6% to $15.91 billion
4. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 3.1% to $6.48 billion
5. Adjusted EBITDA margin expanded 20 basis points to 40.7%
6. Cash from operating activities increased 18.8% to $4.9 billion
7. Free cash flow increased 9% to $2.08 billion
8. Wireless subscribers increased 1.8% to 8.18 million
9. High-speed Internet subscribers increased 4% to 3.37 million
10. TV (satellite and IPTV) subscribers increased 3.9% to 2.7 million

2. Its stock trades at attractive forward valuations

At today's levels, BCE's stock trades at just 16.9 times fiscal 2015's estimated earnings per share of $3.40 and only 16.1 times fiscal 2016's estimated earnings per share of $3.57, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 18.8 and the industry average multiple of 19.1.

With the multiples above and its 5.1% long-term growth rate in mind, I think BCE's stock could consistently command a fair multiple of at least 18, which would place its shares upwards of $64 by the conclusion of fiscal 2016, representing upside of more than 11% from current levels.

3. It has a high dividend and is a dividend-growth play

BCE pays a quarterly dividend of $0.65 per share, or $2.60 per share annually, giving its stock a 4.5% yield. It is also very important for investors to note that it has raised its dividend for seven consecutive years, and its increased amount of free cash flow, including the aforementioned 9% year-over-year growth to $2.08 billion in the first nine months of fiscal 2015, could allow this streak to continue in 2016.

Should you initiate a position in BCE today?

I think BCE will continue to outperform the overall market going forward, so all Foolish investors should take a closer look and strongly consider beginning to scale in to long-term positions today.

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