Does BCE Inc. Really Need More Cash?

Description

There are a lot of Canadian companies that could use more cash. Energy producers are grappling with low oil prices. Miners are running into trouble as Chinese demand slows. Companies such as **TransAlta** and **Bombardier** are hampered by their balance sheets.

BCE Inc. (TSX:BCE)(NYSE:BCE) is at the other end of the spectrum. The company is benefiting from Canadians' increasing thirst for mobile data and it makes very consistent cash flows. Its dividend, while high, appears to be sustainable (and has even been growing).

Yet on Monday, BCE announced that it intends to raise at least $750 million in cash from the sale of new equity. Why on earth did the company decide to do this? And more importantly, should you buy this stock?

An expensive stock

Back in February, a TD analyst said that BCE is "the most expensive telco stock in North America" at about 19 times earnings. For comparison's sake, the company's historical P/E ratio had been only 13. Fast forward to Monday and the share price was at about the same level.

It's no secret why BCE is trading at such a premium valuation: its dividend. The company's $0.65 quarterly payout yields roughly 4.6%, good enough for 12th place on the **S&P/TSX 60**. Among the higher-yielding dividends, many appear to be on shaky ground.

So for anyone looking for a safe dividend, BCE is one of the higher-yielding names. And over the past year many big dividends (especially in the energy sector) have been cut. Thus it's unsurprising that BCE shares have such high demand.

An opportunistic move

BCE's premium share price has not gone unnoticed by its executives. Thus it seems like BCE is simply taking advantage of its expensive stock.

Better yet, the company has plenty of uses for its cash. It can pay down debt, which currently stands at over $20 billion. Or it could wait for the stock price to go back down and then buy the shares back–**Brookfield Asset Management** made such a move earlier this year.

You should stay on the sidelines

BCE's move has been successful. The company's offering has largely been scooped up by retail investors, who, as always, are attracted to the high dividend.

But institutional investors haven't been so enthusiastic and they know exactly what's going on. Your best bet is to follow their lead and avoid BCE's stock for the time being.

CATEGORY

1. Investing

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

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