



You Should Own BCE Inc. Instead of Bonds

Description

By almost any standard, **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) is an expensive stock. Its shares are trading near an all-time high, and one analyst even called it the most expensive telco stock in North America. So why would anyone want to own it?

The reason is quite simple: BCE has one of the best dividends of any company in the **S&P/TSX 60**. And when comparing BCE's payout to the income you can get with bonds, the stock starts to look a lot cheaper.

The dividend is...

BCE is a company with very few growth prospects. It is a mature telecommunications provider in Canada and has no plans to expand internationally (its most recent effort flopped 15 years ago). For that reason the company pays out practically all of its income to shareholders. That's why the dividend yields close to 5%, even though the stock trades in the high teens.

Besides the high yield, one of the most attractive aspects of this dividend is its safety. BCE makes primarily subscription-based revenue, which makes for smooth revenue and earnings. Better yet, the company faces limited competition and is protected by high barriers to entry. So even though the company has a high payout ratio, the odds of a dividend cut are very slim.

...better than bonds

As of this writing, a 10-year Government of Canada bond yields just 1.43%. You can get a bit more yield with corporate bonds, but in order to match BCE's dividend yield, you would have to accept some meaningful credit risk.

All of a sudden, BCE's dividend starts to look a lot more attractive.

Who should own this stock?

BCE still has some risk, especially in the short term. For instance, suppose you had a time horizon of

less than three years and you needed to preserve your capital. BCE shares would be inappropriate in this case, because there's a chance you'll suffer a capital loss. In fact, you'd be better off with a short-term bond.

But for people with a longer time horizon, BCE is certainly a better investment than bonds. This makes the stock perfect for retirees, since they need steady income for the rest of their lives. It certainly delivers more yield than bonds, and it comes with far more safety than other high-yielding dividends.

So before you buy any long-term bonds, make sure you consider this stock first.

CATEGORY

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2. Investing

TICKERS GLOBAL

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Author

bensinclair

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