A Strong Quarter and Lucrative Acquisition: Time to Buy BCE Inc.

Description

The telecommunications juggernaut **BCE Inc.** (TSX:BCE)(NYSE:BCE) may not dazzle with rapid growth, but it continues to beat expectations on earnings and make smart acquisitions to make it stronger and better.

At the end of April the company revealed that its adjusted earnings per share were $0.85 on $5.27 billion, which was up from the $0.84 EPS on $5.24 billion in Q1 2015. While it missed slightly on the expected revenue, it beat on earnings by a penny, which is a good sign for the company.

The reason that its revenue was up was because it continues to sign new people up for its services and generate greater viewership of its media properties. Revenue grew by 5.3% in the Wireless segment to $1.58 billion because the number of subscribers increased to 8.24 million, a 1.6% increase. Further, it was able to increase its average revenue per user by 3.6% to $63.02.

All in all, it saw growth in the expected sections, with Internet subscriptions increasing by 3.4% to 3.41 million and TV subscriptions increasing by 3.4% to 2.75 million. Its local telephone subscriptions dropped by a large 6.4% to 6.57 million, which I expect to continue happening going forward.

But a few days after announcing its earnings, BCE also revealed that it had plans to acquire **Manitoba Telecom Services Inc.** (TSX:MBT) for $3.9 billion. MTS owns 50% of the wireless market in Manitoba, with **Rogers** holding 30%, **Telus** holding 10%, and **BCE** holding an additional 10%.

While it will need to make some regulatory concessions, such as selling upwards of a third of the subscriber base, this move is still huge for the company because it gives it a stronger presence in the west. While there isn't any certainty that the deal will happen, I imagine the $1 billion investment in upgrading the MTS network will encourage regulators to agree to the deal.

The question remains, is this a smart deal for investors?

I say yes.

The first reason is because it secures BCE's strength in the west. As it invests more money into the network, I imagine subscribers will leave competitors and move to BCE, giving the company further growth.

On top of that, BCE believes that the tax savings and synergies from the acquisition will make it accretive to free cash flow instantly, which is a good sign for those who are chomping at the bit for more dividends.

Speaking of which, there's a reason why BCE is known as one of the best (if not *the* best) dividend stocks in Canada. It currently pays $0.6825 per share per quarter to investors, which, at current valuations, is a strong 4.62% yield. The company has been pushing to keep the payout ratio between 65% and 75%. In 2015, it paid out 72.3%, so it's a secure dividend. And if management is correct about this acquisition, I imagine that the increase in free cash flow will result in an immediate boost to the yield.

All in all, BCE is really doing an incredible job of growing organically and also growing through smart acquisitions. While the deal has not been finalized, I expect investors will be pleased with the growth that comes from the deal.

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