Can BCE Inc. Go Any Higher?

Description

Since the middle of June **BCE Inc.** (TSX:BCE)(NYSE:BCE) has been on a bit of a tear, rising from $58.53 to the present value just above $63 a share. For a company that tends to operate as a slow-and-steady type of investment, this appreciation has some investors asking how much higher it can go.

It's important to understand that this stock is expensive. We're talking about a price-to-earnings ratio of 19.92, which is multiples above its five-year average. But just because the stock is incredibly expensive doesn't mean that it can't go higher. We need more information.

BCE is a telecommunications conglomerate that runs its cable, internet, wireless, and wireline business, but it also runs a network of media properties and has stakes in the Toronto Raptors and the Montreal Canadiens. By being diversified, it is able to generate consistent revenue. Consider that a person might buy a cable package, watch a Raptors game on TV, and then decide to go to the next game. All three of those instances put money in BCE's pocket.

And earnings are strong. Its Q1 2016 earnings were $0.85 per share, which was a small improvement year over year. This was driven in part by a 1.6% increase to 8.24 million customers in its wireless division. Along with its average revenue per user growing by 3.6% to $63.02, the company was able to push revenue up 5.3% to $1.58 billion.

Internet subscriptions increased by 3.4% to 3.41 million. TV subscriptions improved by 3.4% to 2.75 million. People want what BCE is selling.

So that's a good sign and should help push the price higher, right?

Unfortunately, that alone isn't enough. While its earnings did grow, they didn't grow significantly. And without significant growth, I don't see how BCE is going to be able to increase the price of its shares substantially. Fortunately, BCE is smarter than me and has a plan.

It is currently attempting to acquire **Manitoba Telecom Services Inc.** for $3.9 billion. MTS owns 50% of the wireless market in Manitoba. **Rogers** owns 30%, **Telus** owns 10%, and BCE has the last 10%. By acquiring MTS, BCE will be able to increase its holding in the space substantially. And despite BCE having to sell a third of those subscribers to Telus, I expect BCE to increase its subscriber base as it invests in the area.

So that should help the price somewhat. However, here's the real reason why the price could appreciate.

BCE is one of the top dividend stocks in the market today. Period. End of story. And it kicks off $0.68 per share per quarter, which is a strong and consistent 4.33% yield. What's good for BCE is that this dividend falls within its targeted 65-75% payout ratio. And with management expecting free cash flow to grow anywhere from 4% to 12%, that dividend should go higher.

And that's the secret to the price increasing. In the past investors would go to bonds for safe income, passing up on significant capital gains for certainty. With interest rates so low, these investors have had to move to assets like dividend stocks. BCE is one of those companies; therefore, as cash flow increases and the dividend rises, more investors will buy BCE for that safe and secure dividend.

I don't see BCE increasing too much because of its organic growth; however, with a couple of smart acquisitions and the fact that it distributes so much of its cash flow in dividends, the price could rise simply because there's no other option.

CATEGORY

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