BCE Inc.'s Adjusted Q2 EPS Jumps 8%: Should You Buy Now?

Description

BCE Inc. (TSX:BCE)(NYSE:BCE), Canada's largest communications company, announced solid second-quarter earnings results this morning, and its stock has responded by making a slight move to the upside. Let's break down the results and the fundamentals of its stock to determine if we should be long-term buyers today or if we should wait for a better entry point in the weeks ahead.

A strong quarter of top- and bottom-line growth

Here's a summary of the most notable statistics from BCE's three-month period ended on June 30, 2016, compared with the same period a year ago:

Metric	Q2 2016 Actual	Q2 2016 Expected	Q2 2015 Actual
Revenue	$5.34 billion	$5.34 billion	$5.33 billion
Adjusted Earnings Per Share	$0.94	$0.91	$0.87

Source: The Canadian Press

BCE's revenue increased 0.3% and its adjusted earnings per share increased 8% compared with the second quarter of fiscal 2015.

Its slight revenue growth can be attributed to its revenues increasing 2.2% to $1.74 billion in its Bell Wireless segment, driven by its subscriber base increasing 1.9% to 8.28 million and its average revenue per user increasing 2.9% to $64.32, and its revenues increasing 5.3% to $779 million in its Bell Media segment, driven by increased subscriber revenues from its expansion of The Movie Network into a national pay TV service as well as rate increases on some of its specialty channels.

However, this growth was partially offset by its revenues falling 2.1% to $2.98 billion in its Bell Wireline segment, driven by "the continued erosion" in its traditional voice and data revenues as a result of many factors, including increased competition.

Its very strong earnings-per-share growth can be attributed to its adjusted net earnings, which excludes the impact of severance, acquisition costs, net gains or losses on investments, and early debt redemption costs, increasing 12.1% to $824 million.

However, this growth was partially offset by its average number of common shares outstanding increasing 2.9% to 869.1 million, which was a result of shares issued under a bought deal offering in December 2015 and its investment in the mobile products distributor GLENTEL Inc. in May 2015.

Here's a quick breakdown of eight other notable statistics from the report compared with the year-ago period:

1. High-speed internet subscribers increased 3.1% to 3.42 million
2. TV subscribers increased 2.8% to 2.75 million
3. Wireline network access service lines decreased 6.2% to 6.48 million
4. Total subscribers across all services decreased 0.4% to 20.93 million
5. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 3.2% to $2.27 billion
6. Adjusted EBITDA margin improved 120 basis points to 42.5%
7. Cash flows from operating activities increased 2.7% to $1.89 billion
8. Free cash flow increased 0.3% to $934 million

BCE also announced that it would be maintaining its quarterly dividend of $0.6825 per share, and the next payment will come on October 15 to shareholders of record at the close of business on September 15.

What should you do with BCE's stock now?

It was a fantastic quarter overall for BCE, and the results satisfied analysts' expectations, so I think the market has reacted correctly by sending its stock higher. I also think it represents a great long-term investment opportunity today for two fundamental reasons.

First, it trades at attractive valuations. BCE's stock currently trades at just 17.9 times fiscal 2016's estimated earnings per share of $3.48 and only 17.1 times fiscal 2017's estimated earnings per share of $3.65, both of which are inexpensive compared with its trailing 12-month price-to-earnings multiple of 19.7.

These multiples are also inexpensive given the strength and stability of its business model and its estimated 5% long-term earnings-growth rate. With these factors in mind, I think its stock could safely trade up to 20 times this year's earnings estimates.

Second, it has one of the best dividends in the market. BCE pays a quarterly dividend of $0.6825 per share, or $2.73 per share on an annualized basis, which gives its stock a very high yield of about 4.4%, and this is supported by its free cash flow.

It's also very important to note that the company's 5% dividend hike in February has it on pace for 2016 to mark the eighth consecutive year in which it has raised its annual dividend payment, and its very strong growth of free cash flow, including its 16.4% year-over-year increase to $1.35 billion in the first half of 2016, could allow this streak to continue for many years to come.

With all of the information provided above in mind, I think all Foolish investors should strongly consider making BCE a core holding by beginning to scale in to long-term positions today.

CATEGORY

1. Dividend Stocks
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