



Yawn All the Way to the Bank With BCE Inc.

Description

Over the years I've talked with many different people about their portfolios, and I've noticed one common theme.

The folks who stuffed their portfolios full of Canada's best blue-chip stocks are, as a group, much happier than other groups—even the indexers.

For most people, the reasoning is two-fold. First, they like getting dividends, which are fairly easy for most blue-chip stocks to deliver. And secondly, there's a sense of security knowing their portfolio is invested in high-quality companies. You don't have to keep a close eye on those kinds of stocks.

Sure, it might be possible to beat the returns offered by these kinds of stocks. According to past performance, small-cap value stocks should outperform over time. But many investors don't care, choosing to forfeit the possibility of outsized returns in exchange for security.

One stock that will allow you to sleep well at night is **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)). Here's the case for making it a core holding.

Stickiness

Warren Buffett famously encourages investors to invest in companies with a moat—a sustainable competitive advantage that can't be easily copied by some upstart new competitor.

BCE has a massive moat, of course. The company has invested billions in both its wireline and wireless networks, as well as a network of retail stores across the country. At the end of 2015 the company had 8.2 million wireless customers, 3.4 million internet subscribers, and 2.7 million cable and satellite users. It also had 6.7 million local telephone customers.

How exactly is an upstart competitor expected to take on a company that entrenched?

And then there's the stickiness of each customer. Most people just blindly pay each month, oblivious to the other options out there. And in 2016, going without internet and wireless phone service is akin to

shutting off the power or gas. People will make a lot of sacrifices before cutting out their precious data.

Growth

BCE seems to be the only telecom in Canada willing to do big acquisitions.

The company made headlines in 2014 by privatizing the portion of Bell Aliant it didn't already own. That deal made sense, since BCE was already the majority shareholder. Nobody else was going to acquire Bell Aliant, no matter how hard they tried.

Manitoba Telecom was another story. Rumours were flying about it shopping itself for months before BCE showed up and agreed to acquire it for \$40 per share. BCE's management bid aggressively and got the deal done.

Pickings look somewhat slim going forward, but I wouldn't doubt BCE will continue its acquiring ways. Maybe it'll start looking at targets outside Canada.

Valuation

Yes, BCE is a little expensive, at least compared to normal. But in today's low interest rate world, that's to be expected. Folks will pay a bit of a premium for consistent dividend growth.

Shares currently trade hands at 19.5 times trailing earnings. The good news is, when we look at forward earnings estimates, the P/E ratio drops to 17.6, which is a little more reasonable.

That dividend

Not only does BCE have a streak of paying annual dividends that is well over a century long, the company also has a terrific history of growing the payout.

Right now the company pays \$0.68 per quarter, which is good enough for a 4.4% yield. The payout ratio based on trailing earnings is 86%, but that decreases to 78% when looking at 2016's estimated earnings. That's a little high, but certainly not bad.

Since 2008 when the company reinstated its dividend after the whole leveraged-buyout fiasco (remember that?), it has increased the quarterly payout from \$0.365 to \$0.68. That's an increase of more than 8% annually, which handily beats inflation and is probably better than the annual raise from work for most investors.

Conclusion

BCE isn't going to perform as well as the next sexy startup. All it's going to do is be a slow and steady performer—the workhorse of any portfolio. For most investors, this is hardly a bad thing.

CATEGORY

1. Dividend Stocks
2. Investing

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