Hungry for Income? Buy BCE Inc.

Description

There's a trend I've noticed while writing for Fool. If the stock exhibits behaviours of moving up slowly and is relatively boring, you know you might have landed on a stock that's perfect for those hungry for income. **BCE Inc.** (TSX:BCE)(NYSE:BCE), the telecommunications behemoth, represents those exact characteristics. That makes it the perfect stock for income-hungry investors.

I believe this because it consistently delivers strong and steady earnings results, it would be virtually impossible for someone new to come along and compete, and it's not comfortable resting on its laurels; specifically, it's quite proficient at acquisitions to achieve growth.

On the topic of earnings, BCE eked out a 2% increase in net earnings at $830 million. While analysts had predicted an adjusted earnings per share of $0.91, the company hit $0.94. This is up 8% year over year.

Its growth is due to across-the-board subscription increases. It added 70,000 new postpaid subscribers–the largest increase for any Canadian telecom. Its internet subscriptions increased by 7,500, and its TV business increased by 2,100. This might sound concerning, but BCE made an active decision not to compete with an aggressive pricing strategy from its competitor in Toronto. In the long run, this will ensure BCE keeps its margins high.

And lest we forget, its media sector saw a 5.3% increase to $779 million in revenue. While it's only a piece of the total pie, it still represents a solid chunk of revenue that is a reminder of how diversified BCE is.

Moving on to the topic of new entrants to the space, they are unlikely. Consider how much it would cost to launch a competitive telecommunications product. You would need to acquire wireless networks, a huge network of cable lines, and then actively market the product. You would be looking at an investment in the tens of billions of dollars, I believe.

Thus, BCE doesn't have to play defense against new entrants, allowing it to divert more of its resources to other initiatives, such as acquisitions.

In the beginning of August, BCE acquired the rest of Q9 Networks for $675 million. Q9 is a data centre operator that offers hosting and cloud services to business customers. It had originally sold 35.4% of the business to BCE in 2012 for $1.2 billion.

It is also waiting for approval to acquire **Manitoba Telecom Services Inc.** (TSX:MBT) for $40 a share, which comes out to $3.9 billion. Investors can either get that in cash or in shares of BCE. There is some concern that regulators will balk at the merger, but BCE is committed to investing $1 billion over five years to upgrade the telecom's infrastructure. And it will also sell a third of Manitoba's monthly contract customers and stores to **Telus Corporation.**

These moves make it possible for BCE to become the income feast that hungry investors are looking for. It pays $0.68 per quarter, which is a 4.41% yield. While the payout ratio is 86%, I am comfortable with the high dividend primarily because BCE doesn't have to play defense. Because BCE doesn't have to get into a game of "who can offer the lowest price," its cash flow is consistent, making its dividend consistent.

All in all, BCE has little competition from new entrants, its earnings are strong and steady, and it's acquiring new assets to become an even stronger company. And with a 4.41% yield, there's no need to go hungry anymore.

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2. Investing

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