Is BCE Inc. the Perfect Income Stock?

Description

When looking to invest in new dividend stocks, there are a few variables to consider. The first is whether or not the company has predictable cash flow to pay out to investors. The second is whether the company has to play defense or if it has what's known as an economic moat. And finally, are there places for the company to invest in growth to make the dividend grow even more?

In my opinion, **BCE Inc.** (TSX:BCE)(NYSE:BCE) satisfies all three of these requirements, making it one of the best income stocks in Canada.

First up is its predictable cash flow. In the second quarter of 2016, it saw a 2% increase in net earnings to $830 million even though revenue was only up by 0.3%. And cash flows from operating activities were up 2.7% to $1.89 billion. And its free cash flow was up by $3 million to $934 million. It might seem that this is concerning because the growth is so small, but it's important to recognize that this is all very predictable.

Every month, BCE brings in more money because customers pay their monthly bills. And because these customers have contracts, BCE is pretty comfortable knowing that it is going to continue receiving that money every month. So long as BCE knows it will continue receiving that monthly bill, it can comfortably predict what its cash flow situation will be, making it possible for it to distribute such a large amount of money in dividends. An unpredictable business couldn't comfortably have a payout ratio of 86.4%, but BCE is predictable.

Another reason it is predictable is because it doesn't play defence.

An economic moat is how secure the company is. And in BCE's case, its economic moat is how much money it would cost a competitor to launch a new product in Canada. Between the wireless spectrum auctions, cable lines, new stores, and other infrastructure, you're looking at tens of billions of dollars in investment, if not more.

And then there is the ongoing cost of marketing, which would be hundreds of millions of dollars. The reality is that BCE is unlikely to have new competitors, putting it in a position where it doesn't have to play defence against anyone else.

And finally, the company is in a position to grow through acquisitions. It is spending $3.9 billion on **Manitoba Telecom Services Inc.** (TSX:MBT) and will then invest an additional $1 billion to upgrade its infrastructure. It also paid $675 million for the remaining 65% it didn't own in data centre operator Q9 Networks. These deals are giving BCE the necessary growth any good income stock should have.

One concern is that BCE is sitting on $21.7 billion in debt. While that's not a problem today with interest rates so low, if they start to rise, its cash flow could take a hit. However, because the economy is still somewhat weak in Canada, I'm unconvinced that a rate hike is imminent. Therefore, BCE should be in a position to further integrate these revenue sources before interest rates rise.

All in all, BCE fits the parameters for a strong dividend stock. It may not experience tremendous growth, but the 4.52% yield is predictable and will hit your account on time, every time. I say buy.

CATEGORY

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2. Investing

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