BCE Inc.: The Right Pick for Long-Term Dividends?

Description

While buying stocks for appreciation is certainly nice, it requires you to sell those stocks one day to actually have the cash you need to survive. I can't help but feel that buying a stock and living off the dividends is a lot more appealing. I get to own a business that is doing well and, in return, receive income to fund my life. Then I don't have to get rid of the great companies I own.

BCE Inc. (TSX:BCE)(NYSE:BCE) is an incredibly large telecommunications business with its hands in many different pots. It has taken the approach of being entrenched in its customers' lives through standard cell phone, internet, and cable products, but also through TV channels they watch, the sports teams they root for, and the websites they visit.

Because of this, the company has been able to continue slowly growing its business. Its revenue increased in Q2 to $5.34 billion from $5.326 billion the year prior. Its adjusted net earnings increased by 12.% to $824 million, and its free cash flow increased to $934 million from $931 million.

On the surface, this very slow growth might concern income investors. However, here's why it's not all that concerning: it's predictable. I can't tell you the last time I didn't pay my cell phone bill. I'm hooked to my iPhone, and so are tens of millions of other people. The predictability that comes from people paying their bill each month allows BCE to continue paying its lucrative yields.

And while growth might seem tepid, the company is taking an acquisitive approach to keep the growth coming.

Last May, BCE announced that it would be acquiring **Manitoba Telecom Services Inc.** (TSX:MBT) for $3.9 billion. This will make it the largest wireless provider in Manitoba. Its internet subscriber base will increase by 224 thousand, or 6.6%; and its IPTV subscriber base will increase by 8.6%, or 106 thousand. And since its margins are similar to BCE's, at 40%, the business should be very profitable. And with a $1 billion investment over five years, it hopes to convince even more customers to switch to Bell in the coming months.

BCE also acquired the rest of Q9 Networks it didn't already own. In 2011, BCE bought 35% of the business for US$1.1 billion. In August, it paid $675 million for the remaining 65%, plus any debt the company had. This will provide modest improvements to revenue in the wireline business.

So all of this makes it possible for BCE to pay a 4.51% yield, or $0.6825 per quarter. And what should make investors happy is that the company has increased the dividend 12 times in the last seven years–the most recent being a 5% increase in February. According to management, these increases total 87% growth in the dividend.

Here’s how I see it…

BCE is an expensive business that is growing, but very slowly. However, it pays a very lucrative dividend. Because it provides services that people are addicted to, I see little reason why this cash cow will stop anytime soon. However, you should be cognizant that you are paying a lot for this asset.

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jaycodon