Is BCE Inc. Still a Smart Buy?

Description

There are few stocks that people love as much as **BCE Inc.** (TSX:BCE)(NYSE:BCE) when it comes to dividends. With a yield of 4.72%, which pays out $0.6825 per quarter, income investors have flocked to this company because of the growth in the income and the consistency.

Since the middle of August, the stock has dropped over 9% from a little over $63 to under $58. In many cases, when a dividend stock drops like that, it's a buying opportunity. The dividend hasn't changed, so it's a great way to buy the stock at a higher yield. But is BCE still a smart buy?

There are a couple reasons the stock price has been dropping. One has to do with the global bond market experiencing weakness. As these bonds drop in price, the yield naturally increases (just like a dividend stock), so income investors have more options of where to get their income. Remember, dividend stocks have been on the rise the past few years because we were living in a nearly 0% interest rate world. As bond rates improve, that becomes less of a problem.

The other reason is simple fundamentals. Because of the yield and the amount of people desperate for cash, it has always been an overpriced company. With a P/E of 18.34 (down quite a bit since August), it's not exactly cheap. But it'd be okay to buy an expensive income stock if the dividend was going to keep growing.

Unfortunately, while the company certainly continues to add subscribers, the slow growth it is experiencing doesn't leave me optimistic about how much more the dividend can grow.

In Q3 2016, it added 135,000 net new wireless, internet, and TV subscribers. A problem for BCE is that there are some smaller competitors trying to pull market share away with cheap deals. Nevertheless, the average revenue per user for its wireless customers rose 3.7% to $67.76.

Recognizing that organic growth might not be possible, the company is making acquisitions. It's working to acquire **Manitoba Telecom Services Inc.** for $3.9 billion. BCE's internet subscriber base will increase by 224 thousand, or 6.6%; its IPTV subscriber base will increase by 106 thousand, or 8.6%. Analysts expect the margins to be about 40%, so it's comparable to what BCE generates.

BCE also acquired the remainder of Q9 Networks, an internet and data centre services business. In 2011, it bought 35% for US$1.1 billion. In August, it paid $675 million for the rest of the business, plus the assumption of all its debt. While this won’t move the needle a lot, it’s still an improvement.

Should you buy, sell, or hold?

This is always a difficult choice. The stock is down nearly 10% since the middle of August, so when it comes to income stocks, that’s very appealing. But the reality is simple: it’s not going to be able to experience tremendous growth because it’s already the juggernaut.

However, there are few stocks that can provide a dividend as predictable as BCE. Therefore, if you already own it, don’t sell; just keep taking the dividends. And if you want to buy, you can, but you have to feel comfortable knowing it’s an expensive stock. The yield is generous, but there might be other, cheaper options in the market.

CATEGORY

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