Should You Buy BCE Inc. While the Stock Is Down?

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) has a reputation for being one of the better income-producing stocks on the market. The media behemoth has been paying dividends for well over a century and is set to continue paying for many more years.

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So why is the stock down, and does this change BCE's perceived status as a strong investment option?

What makes BCE a great investment?

One of the reasons BCE has been such a great investment over the past few years is because the company offers core internet, cable, and TV subscription services that few, if any, other competitors can match on both coverage and price. BCE's vast infrastructure set up throughout the years has meant that the company can provide a significantly higher payout ratio to allocate to dividends–by some estimates, as high as 85%.

The infrastructure provides an impressive moat around the company; competitors emerging at the national scale and offering the same level of service coverage is virtually impossible without a massive investment of tens of billions of dollars and a decade or more of infrastructure development.

The flip side to this argument is that in maintaining an 85% payout ratio, there isn't much left to provide for significant growth investment, or so it would seem. Additionally, because BCE is a behemoth, the possibility of the market becoming too saturated with BCE offerings is always a concern.

Is stagnant growth on the way?

One of the concerns about BCE is that the company is already as big as the market can support. A similar situation emerged years ago in the insurance sector; some of the largest insurers in Canada turned to foreign expansion to combat domestic market saturation.

In contrast to those critics, BCE still maintains a respectable EPS estimate for the rest of the year and has forecasted growth of at least 3-4% over the next few years.

Critics also point to the recent Freedom Mobile announcement. Freedom Mobile is a rebranding of Wind Mobile and is being relaunched with expanded coverage by **Shaw Communications Inc.** Freedom Mobile could potentially cause some issues for BCE and other competitors by introducing lower price points, but Freedom Mobile is still years out from offering national coverage anywhere near on par with BCE.

Is BCE still a good investment?

Whether BCE fits into your portfolio or not depends on the objectives that you've set. We've seen some prominent investors, such as Prem Watsa, dump BCE earlier in the year, but there are others that have since purchased the stock and will continue to do so.

BCE represents a great opportunity as an income-producing stock, but that income comes at the cost of a less-than-aggressive growth.

Investors looking for a steady stream of income will be more than pleased with the performance of BCE, particularly over the long term. The recent dip in price could be seen as an opportunity for these investors to seek out a larger position in the stock.

Investors looking for more aggressive growth will be better suited with a smaller position in BCE and an investment in another company that offers growth.

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