Is BCE Inc. a Safe Dividend Stock?

Description

Since the middle of August, **BCE Inc.** (TSX:BCE)(NYSE:BCE) has experienced an 8.5% drop in value–something that investors are not quite used to since the past few years have been remarkable for the dividend stock. Investors are wondering whether they should take advantage of the drop or if they are better suited avoiding it.

BCE is known for its dividend. With a 4.73% yield, investors can feel pretty confident about receiving $0.6825 per quarter. However, there are plenty of signs that point to BCE being at its peak and, quite frankly, there might be better opportunities in other sectors.

The first problem is interest rates. As interest rates increase, investors who have been desperate for income move back into bonds. Therefore, BCE, which is a dividend saint, is going to lose some investor money. If interest rates continue to increase, dividend stocks across the board should see some pullback. When investors have options, they become a bit choosier, and there is a belief that bonds are safer than stocks.

The next problem is organic growth. In Q3 2016, BCE only added 135,000 new wireless, internet, and TV subscribers. While any growth is appreciated, the reality is that the Canadian market is saturated. There are likely few new subscribers, and the company will be battling with the other major players and new upstarts.

While BCE certainly has a moat, there are new competitors with big company backing that are trying to pull customers away with cheap deals. Whether or not this strategy will work remains to be seen, but the reality is that there isn't much organic growth to be had in Canada.

BCE is attempting to get around this by growing through acquisitions. It is currently working on acquiring **Manitoba Telecom Services Inc.** for $3.9 billion. While it will need to give up some subscribers for regulatory approval, the company hopes to add 224,000 internet subscribers and 106,000 IPTV subscribers. Because margins are about 40%, which is what BCE gets from its current subscriber base, the deal could be quite beneficial to BCE.

The problem is the amount of debt BCE has had to take on for these acquisitions. It is sitting on $22 billion in net debt, which, with interest rates slowly increasing, could start to be a serious burden for the company. With more of its cash flow being used to pay that off, it could cut into the company's ability to increase the dividend, even if it does experience growth.

I have been a long-term bull about BCE primarily because of the income. And frankly, I still am bullish about BCE as a portfolio booster with regard to its dividend. Therefore, if you are holding BCE, I think it is worth keeping it. The 4.7% yield offers a buffer in case the stock drops. However, if you are thinking about buying it, I would rather see you put that money in other stocks that are cheaper and provide a dividend of equal quality. It's not that BCE is bad; it's just that there are better options elsewhere.

CATEGORY

1. Dividend Stocks
2. Investing

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