BCE Inc.: 3 Things Investors Should Be Worried About

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) has been a favourite pick of income investors for a long time. The stock has flat-lined for about two years now, and it looks like the drought could continue for longer than most investors think. As the biggest Canadian telecom, there are limited growth opportunities and the threat of new entrants stealing its market share.

First off, the stock is overvalued with an 18.37 price-to-earnings multiple and a 4.1 price-to-book multiple, both of which are higher than the company's average multiples of 16.7 and 3.6, respectively. The dividend is also 0.2% lower than its historical average of 4.9%. It makes no sense as to why BCE is this expensive given that the company will struggle to grow and retain its subscriber base over the next five years.

For a company as big as BCE, there's very little room to grow further. The dividend is at an attractive level, but if you're a long-term holder of the stock, you're unlikely to see any capital gains for the next few years. BCE has the inability to grow its business as fast as its competitors in the Big Three simply because BCE is a massive behemoth.

Billionaire guru Prem Watsa sold off his entire stake in BCE last year, and it's no mystery as to why. Although the dividend is attractive and safe, the valuation is not. The stock commands a huge premium over its competitors, and there's no reason why it should.

Second, **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) and its new wireless carrier Freedom Mobile is set to steal market share from the Big Three telecom giants. BCE in particular is vulnerable to the entrance of Freedom Mobile in the Canadian telecom scene because of its sheer size. BCE also hasn't had the best customer-service track record, and once Freedom Mobile ramps up its marketing campaign, we could see BCE subscribers start leaving in large amounts next year.

It's BCE's subscriber base to lose right now, and the management team will need to do everything it can to retain its current customers; otherwise, the stock could be in for a plunge over the next year or two.

Sure, Freedom Mobile is a threat to every telecom in the Big Three, but I believe income investors should avoid overvalued names like BCE because the stock will get hurt even more as income investors flee in search of better value.

Lastly, there's been a lot of insider-selling activity over the last year. The CEO sold $26.2 million worth of shares around the $58 range. Whenever the CEO sells this much of his own stock, questions need to be raised as to why. I think the answer is crystal clear.

If you're an income investor that holds a lot of shares of BCE, then it may be time to start taking profits off the table, as the stock is way too pricey right now. If you're just in it for the yield, then you should buy Shaw Communications Inc., which will be hungry to steal subscribers from the Big Three telecoms over the next few years.

Stay smart. Stay cautious. Stay Foolish.

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