Income Investors: Is BCE Inc. a Buy on the Dip?

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) continues to be a popular core holding for income investors across Canada. The company is the biggest of the Big Three and offers a very attractive 4.65% dividend yield at current levels.

For a company as big as BCE is, it can be quite difficult to grow revenues by a meaningful amount on a consistent basis. Most of the growth has been through the company's wireless segment, which brought in over 107,000 new subscribers during its last quarter. There's no question that BCE has some very strong momentum in wireless subscriber growth lately, but is it possible that the company has seen the peak of wireless subscribers?

Shaw Communications Inc.'s (TSX:SJR.B)(NYSE:SJR) Freedom Mobile is expected to ramp up this year and could steal a huge amount of subscribers away from its the Big Three incumbents. It looks like BCE has a lot to lose from the entrance of Freedom Mobile into the telecom scene. Going forward, we could easily see subscriber growth momentum turn negative if the company doesn't find a way to stop subscribers from jumping over to Freedom Mobile's cheaper cellphone plans that the average Canadian consumer has been wanting all these years.

The stock recently pulled back by as much as 10% in the latter part of last year, but I still think the stock is ridiculously overvalued at current levels. Let's take a look at some key metrics.

The stock looks expensive based on almost every traditional valuation metric. The price-to-earnings, price-to-book, price-to-sales, and price-to-cash flow multiples are at 18.6, 4.1, 2.4, and 7.7, respectively, all of which are higher than the company's five-year historical average multiples of 16.7, 3.6, 1.9, and 7, respectively. The dividend yield is also lower at 4.65% than it the historical average dividend yield of 4.9%.

There's no reason why the stock should be trading at such an expensive valuation, especially considering the fact that Freedom Mobile could disrupt the company's ability to grow its subscriber base over the long term.

Prem Watsa, the Warren Buffett of Canada, dumped his entire stake in BCE last year, and it's not a mystery as to why. The company's long-term top line may take a hit thanks to Freedom Mobile, which could cause pricing pressure as well as long-term subscriber losses for BCE as well as the other Big Three incumbents. However, unlike the other companies in the Big Three, BCE has the worst growth prospects for the price.

Although BCE is a terrific company, the valuation doesn't make sense since it will be facing major long-term headwinds that could drive the stock to the low $50 level in the medium term.

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