Is BCE Inc. a Secure Income Stock?

Description

Dividend behemoths such as **BCE Inc.** (TSX:BCE)(NYSE:BCE) are often considered buy-and-forget stocks. But no matter how amazing the dividend or company is, no stock should be forgotten forever. There are some instances where a company is worth getting rid of either because it has reached the pinnacle of its existence or because the dividend is insecure.

The question investors have to ask is whether BCE — considered one of the best dividend stocks in the world — is actually a secure company to own. So, let's look at the numbers.

The company's payout ratio, or the percentage of free cash flow that is paid out in dividend, is 85.36% (according to *Morning Star*), which is a little on the high end. That means that for every $1 in free cash flow, the company pays out ~$0.85. And this comes after the company announced in its Q4 2016 earnings that it would be increasing the dividend by 5.1%, or a $0.14 per share increase, to $2.87. Should cash flow increase, it should help lower this payout ratio.

But even if the payout ratio is 85.36%, if the company can afford it, and if it's experiencing enough growth to cover it, there really isn't much to be worried about. Many signs point to the company doing pretty well.

While operating revenues were only up 1.8% from the $5.6 billion in Q4 2015 to the $5.7 billion in Q4 2016, net earnings were up 29% from $542 million to $699 million, which is an incredible sign. And free cash flow was up 7.6% to $3.23 billion in 2016 versus $2.999 billion in 2015.

There are a few reasons for this.

First, its wireless segment saw a 23.1% increase in new customers to 112,393 net postpaid subscribers. Its average revenue per user increased by 4.7% with service revenue increasing by 7.2%. Second, its internet and TV segments also improved with 54,307 net additions. Even Bell Media is growing with operating revenue increasing by 3.6% to $845 million from $816 million a year prior.

BCE has gained all regulatory approvals to complete the transaction of **Manitoba Telecom Services Inc.** for $3.9 billion. The company is hoping to add 224,000 internet subscribers and 106,000 IPTV subscribers. With margins at approximately 40%, this could generate lucrative cash flow for the business, adding the potential for future dividend increases.

The one concern for me is its debt. Currently, it has $22 billion in net debt, which could come back to haunt the company if interest rates rise. While it's not a problem today, that could change. Therefore, for me to feel truly secure, I'd want to see a long-term strategy by management to reduce this debt.

Nevertheless, BCE is a dividend juggernaut. It has strong growth, it's making smart acquisitions, and its free cash flow year over year is growing. Therefore, my belief is that the dividend is secure for the time being. And for those who want to buy and forget BCE, you can get away with that for a while. However, as with any investment, check in from time to time to make sure the investment thesis you have today is still the same.

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