BCE Inc.: Is this Stock Attractive?

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) is one of Canada's top companies.

Let's take a look at the current situation to see if the stock deserves to be in your portfolio right now.

Latest news and results

BCE recently received the final regulatory clearance for its purchase of Manitoba Telecom Services (MTS).

The deal vaults BCE to the number-one spot in the province and provides the company with a strong strategic base in central Canada to execute a push further west.

In its Q4 2016 earnings report, BCE provided 2017 guidance that did not include contributions from MTS.

Revenue growth is targeted at 1-2%, adjusted EBITDA growth should come in at 1.5-2.5%, and earnings are expected to be $3.42-3.52 per share compared to $3.33 in 2016.

Free cash flow is expected to grow 3-7% and come in at $3.325-3.450 billion.

Is that attractive?

Debate rages in the investment community as to whether or not BCE should be a core holding.

Critics point to the company's slow growth and lofty valuation and say a big hit is coming when interest rates begin to rise.

Fans of the stock look at the dominant position the company has in the market as well as the solid free cash flow, and argue the outsized dividend will more than offset any pressure from rising rates.

Who's right?

REITs, utilities, and telecoms tend to carry large debt levels and are favoured holdings of dividend investors. In a scenario where interest rates rise significantly and over a short period of time, companies in these sectors are probably going to see some stock-price pressure.

However, rates in Canada are not expected to rise in the near term. In fact, the next move could be down.

South of the border, the Fed is expected to increase rates as much as three times this year. That’s not guaranteed, as we saw in 2016, and even if the Fed meets the target, the moves are expected to be gradual and small.

As such, I think the rate fears might be a tad overblown right now.

Should you own BCE?

The company just raised its dividend by 5%, and once the MTS deal is completed, investors could see an additional increase.

The new payout is $2.87 per share on an annualized basis and currently yields 4.9%.

Revenue growth isn’t stellar, but the company generates significant free cash flow and continues to invest in its network, including the roll-out of the fibre-to-the-home services.

BCE has such a dominant hold on the Canadian communications market that investors should feel comfortable with its ability to defend its turf in a rapidly changing communications and media sector.

Value hunters probably don’t have much interest here, but investors searching for a safe, high-yield dividend stock that tends to hold up well when the broader market hits a rough patch might want to add a bit of BCE to the portfolio.

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