# Gain Strong Dividends With BCE Inc.

## Description

Any time an amazing dividend stock's yield begins to creep up, it's worth taking a look.

And that's been going on over the past three months for **BCE Inc.** (TSX:BCE)(NYSE:BCE), which has seen its stock peak at nearly $63 before dropping to about $58. In that same time, the yield has gone over and under 5%, making income investors very excited.



But what's driving this fluctuation, and should investors take advantage?

The Bank of Canada followed through on its plan to increase interest rates to 0.75% from 0.50%. Although it is only a small step, it is the first time the bank has done this in seven years. Should the increase not have a negative impact on the economy, future increases are to be expected.

But why does this impact BCE? There are two reasons.

First there's the debt the company holds. It has been a borrower's economy for a long time now, which has made it easy for companies like BCE to borrow billions of dollars.

The company is sitting on US$24.1 billion in debt, which gives it a debt-to-equity ratio of about 1.62. If this debt becomes more expensive to service, cash flow for the business will drop, which could impact dividends.

The other reason has to do with investor behaviour. When interest rates are low, more conservative investors are forced to move into stocks to get their income because savings accounts and other products don't pay nearly anything.

But when interest rates increase, other products become more appealing since the pay becomes greater, and they have less risk than stocks.

Here's the thing: BCE pays just about a 5% yield every year. The company distributes $2.88 a year in dividends. Frankly, it will take a very long time, in my opinion, for savings accounts or some other product to generate enough returns to offset the risk associated with owning a stock. I just don't see the opportunity. However, the market always overreacts, which creates good opportunities for you.

BCE is a juggernaut of a company. Its growth prospects aren't very strong, but its moat is significant and its impact on our lives is absolute.

BCE offers internet, wireline, wireless, and TV subscription services. Not only does it deliver the content, but in many instances, it owns it, with a vast array of television stations, radio, and websites. BCE owns 37.5% of Maple Leaf Sports & Entertainment Ltd., so we can watch the Maple Leafs, Raptors, and Toronto FC. It also owns equity in the Montreal Canadiens.

Every time you consume some sort of media, you're paying BCE for the delivery of the content and to access the content. That's significant, and it's a big reason the company has such strong numbers.

According to its Q1 2017 earnings report, adjusted earnings per share was $0.87 versus $0.85 a year prior. And its average revenue per user increased by 4.2% to $65.66.

I expect to see earnings continue to grow. Because of its moat and how engrained it is in its customer's lives, prices can increase without much negative impact.

BCE is not an exciting company. It's boring, actually. But because of its strong dividend, and because interest rates are going to grow much slower than the market believes, I think it's a great time to buy shares.



Average in and try to get your yield on cost to about 5%. Anything over that is gravy.

**CATEGORY**

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