3 Reasons Why it May Be Time to Sell BCE Inc.

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) has been to go-to stock for many long-term income investors over the years. BCE is the largest communications company in Canada and has delivered strong dividend growth over the last decade, but looking ahead, there are many headwinds on the horizon that could hurt returns over the next few years.

Here are three major headwinds to think about if you're a shareholder.

Slowed growth from here

Due to BCE's massive size, it's a given that meaningful growth going ahead will be hard to come by. The recent acquisition of Manitoba Telecom Services opens doors to synergy opportunities, but relative to the company's size, this growth prospect is unlikely to make a huge difference compared to its smaller peers in the Canadian telecom scene. The Manitoba Telecom Services deal is expected to be accretive to free cash flow this year with $25 million worth of operating synergies expected in the first 12 months.

BCE has a whopping $52.44 billion market cap, which is substantially higher than its peers in the Big Three. It's only natural that telecom investors seeking growth will do a lot better with one of the smaller players in the space rather than BCE, which I believe will struggle to grow by a meaningful amount in the coming years.

Increased competition could cause pricing pressure and subscriber losses

To add more salt to the wound, competition in the Canadian wireless space is about to become really fierce, and it's quite possible that BCE may witness its wireless subscribers hit a peak. Although BCE has one of the highest-quality networks in the country, many smaller, more affordable carriers are jumping into the telecom scene with the hopes of luring Canadians by offering a value option — an affordable wireless plan that is dependable enough for the average Canadian.

Freedom Mobile, a subsidiary of **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR), hopes to do just this. The management team has been aggressively investing in its wireless infrastructure with the hopes of catching up to its higher-quality Big Three brothers. Once Freedom Mobile's network is fully upgraded, it's likely that its management team will ramp up promotions and marketing, which will put the pressure on the Big Three players like BCE, which has benefited over many years from less competition.

Rising interest rates not great for the Big Three telecoms

BCE, as well as the other Big Three incumbents, have enjoyed rock-bottom interest rates for quite a while, but those days are coming to an end as rates continue on its upward trajectory. **Telus Corporation** (TSX:T)(NYSE:TU) has responded to the rising threat of Freedom Mobile by spending a huge amount to upgrade its west coast infrastructure. Going forward, it's likely that BCE will need to continue to invest heavily to remain competitive.

That means taking on more debt for capital expenditures in a rising interest rate environment, which probably won't give investors the same magnitude of profitability in the future as the company enjoyed in the past. This headwind is not unique to BCE, but long-term investors will still need to reset their expectations from this high-income-paying behemoth.

The dividend is still top notch at 4.9%, but capital appreciation and dividend growth are likely to be very modest compared to the past.

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