BCE Inc.: Is this Dividend-Growth Stock a Bargain After an 8% Dip?

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) stock has been under pressure for many months. Its shares have declined about 8% since late April on concerns that rising interest rates and intensifying competition will eat into the margins of this telecom giant. Does this plunge provide a good entry point for investors seeking to buy a quality dividend-growth stock?

Let's see what's going on in the Canadian telecom market and how some smaller companies are challenging the dominance of the "Big Three."

Threat of rising interest rates

Shares of power utilities, real estate investment trusts (REITs) and telecom providers tend to fall in a rising interest rate environment. One simple reason of this sell-off is that these businesses usually have lots of debt on their balance sheets. As interest rates rise, so does their debt-servicing cost, leaving a less room for the future dividend growth.

The Bank of Canada (BoC) hiked the benchmark interest rates this month for the first time in seven years, and signaled that it may be ready to move again if the current economic strength turns into a more robust recovery.

The latest data suggest that BoC will have a good justification to continue with its monetary tightening. If that happens, it'll erode the investors' interest in high-yielding dividend stocks like BCE. In a rising interest rate environment, investors also seek the safety of government bonds as the spread between the high-yielding stocks and government bonds gets narrowed.

Competitive pressures

Canada's wireless market is becoming more competitive as smaller players like **Shaw Communications Inc.** are aggressively working to capture the market share. In Shaw, income investors are probably seeing a better value in terms of capital gains and dividend growth.

Shaw plans to use its newly acquired Freedom Mobile brand to offer discounts to win wireless consumers. This strategy is forcing the Big Three, including BCE, to cut prices on their mobile offers. Some analysts believe it'll be tougher for Canada's largest telecom company to produce higher growth in its revenue in this competitive environment.

These are the negative forces which are causing BCE's shares to lag other telecom players for the past year. But I think BCE's long-term value is still intact, despite these challenges.

For income investors, BCE is a great dividend stock for many years. Investors have been getting the dividend cheques for the past 134 years from this great company — a history which is almost impossible to match.

With a dividend yield of 5%, BCE shares are trading at $58.20 at the time of this writing, not far from their 52-week low of $56.80. I don't think these challenges are big enough to endanger the company's dividend and its stable growth model anytime soon. This recent sell-off provides a good opportunity for income investors to include this dividend-growth stock in their portfolios.

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