Why BCE Inc. Fell 1.1% on Thursday

Description

BCE Inc. (TSX:BCE)(NYSE:BCE), Canada's largest communications company, announced its second-quarter earnings results on Thursday morning, and its stock responded by falling 1.1% in the day's trading session. Let's take a closer look at the quarterly results, its outlook on the year, and the fundamentals of its stock to determine if we should consider using the weakness as a long-term buying opportunity.

Breaking down BCE's Q2 performance

Here's a breakdown of 12 of the most notable statistics from BCE's three-month period ended on June 30, 2017, compared with the same period in 2016:

Metric	**Q2 2017**	**Q2 2017**	**Change**
Operating revenues	$5,699 million	$5,340 million	6.7%
Adjusted EBITDA	$2,381 million	$2,268 million	5%
Adjusted EBITDA margin	41.8%	42.5%	(70 basis points)
Adjusted net earnings	$792 million	$824 million	(3.9%)
Adjusted earnings per share (EPS)	$0.88	$0.94	(6.4%)
Cash flows from operating activities	$2,154 million	$1,890 million	14%
Free cash flow	$1,094 million	$934 million	17.1%
Wireless subscribers	8,901,291	8,280,693	7.5%
High-speed Internet subscribers	3,718,677	3,418,785	8.8%
TV subscribers	2,824,016	2,750,596	2.7%
Wireline network access service (NAS) lines	6,479,315	6,476,683	–
Total subscribers across all services	21,923,299	20,926,757	4.8%

Announcement regarding its guidance

In its investor fact sheet for the second quarter, BCE noted that it's on track to meet its financial guidance for fiscal 2017, which calls for the following results:

Metric	**2017 Guidance**
Revenue growth	4-6%
Adjusted EBITDA growth	4-6%
Capital intensity	Approximately 17%
Adjusted EPS	$3.30-$3.40
Free cash flow	$3,375 million-$3,550 million

What should you do with BCE now?

It was a good quarter overall for BCE, and it capped off a solid first half of the year for the company, in which its operating revenues increased 4.5% to $11.08 billion, its adjusted EBITDA increased 3.7% to $4.6 billion, and its free cash flow increased 17.1% to $1.58 billion. It’s important to note that its revenue growth in the second quarter was driven by its acquisition of Manitoba Telecom Services, which closed in March, but this also increased its expenses and increased its average number of shares outstanding, which led to the decline in earnings. I think the company will gladly take the earnings hit now for the growth that will come in the future.

With all of this being said, I think BCE represents a great long-term investment opportunity today for two reasons in particular.

First, it trades at attractive forward valuations. BCE’s stock trades at just 17.5 times the median of its adjusted EPS outlook for 2017 and only 16.5 times the consensus analyst estimate of $3.57 for 2018, both of which are inexpensive given its long-term earnings-growth potential.

Second, it’s one of the market’s best dividend stocks. BCE pays a quarterly dividend of $0.7175 per share, equal to $2.87 per share annually, which gives it a juicy 4.9% yield. Investors must also note that the company’s 5.1% dividend hike in February has it positioned for 2017 to mark the ninth consecutive year in which it has raised its annual dividend payment, and it has a target dividend-payout range of 65-75% of its free cash flow, so its consistently strong growth should allow this streak to continue for many years to come.

With all of the information provided above in mind, I think all Foolish investors should strongly consider making BCE a core holding.

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