BCE Inc.: Don't Miss Out on the ~5% Yield

Description

Since the end of April, shares of **BCE Inc.** (TSX:BCE)(NYSE:BCE) have been on a slow decline, losing close to 7% of its value. This can be viewed in both a positive and negative light, which I'll touch on in a second.

But first, why are shares declining? I believe there are a couple specific reasons.

The Bank of Canada increased rates by a quarter percent to 0.75%. Although it is a small move, this is the first move in seven years, so it has investors particularly intrigued.

The impact on BCE is twofold. First, BCE has US$24.1 billion in debt. When interest rates are low, the amount of interest the company pays is small, so cash flow is not affected. If rates begin to increase, more of BCE's cash flow could be dedicated to paying that interest versus boosting the dividend.

Another impact that higher interest rates have on BCE is that they make other investment vehicles more attractive. With interest rates low, investors were forced to move into dividend stocks to generate income. With rates increasing, they can move back into safer income-producing assets. They'll need to sell to make this move, thus pushing shares down.

A slightly weaker-than-expected quarter is another reason shares are down. While revenue was up 6.7% to $5.7 billion, adjusted net earnings was down slightly from last year. Headline investors see that and get nervous, which is unnecessary considering that the company increased its free cash flow by 17.1% to $1.09 billion.

Ultimately, I care more about the free cash flow than the earnings, because this is what allows the company to pay its bills and, more importantly, reward investors with a strong and lucrative dividend.

And boy is it strong…

Thanks to shares dropping by 7%, the yield has increased to just about 5%. This is good for a quarterly distribution of $0.72. Nearly 80% of its earnings go to the dividend, but this has historically always been the case, so I am not too worried. It generates more than enough money to continue paying that yield.

So, who should be buying BCE?

Anyone that cares about a 5% yield on cost should be purchasing shares of this company. But, more specifically, if you need a strong dividend and understand that the stock is not a high-growth opportunity. On one hand, this stock won't keep you up at night; on the other, I see little reason for the stock to experience double-digit yearly growth. But that's okay.

Until interest rates really start to increase, there are few vehicles that can provide a yield as strong as BCE. Nevertheless, the market will overreact. I would be looking to pick up shares of this company whenever the yield pushes above 5% — and especially if we start to see 5.5% or hopefully 6%.

BCE is one of the massive telecommunications companies with a moat wider than any medieval castle. It may be boring, but the quarterly cash will definitely be appreciated.

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