Can BCE Inc. Get to $60 and Stay There?

Description

Outside of a few months this year when its share price was trading above $60, **BCE Inc.** (TSX:BCE)(NYSE:BCE) has had its stock stuck in a range of $57-$59 . It has followed a pattern of bottoming out around $57 and then rising to around $59 or higher and then descending back down.

The stock has struggled to have any sustained increase beyond $60, and without it being able to breakthrough that barrier the stock's returns are going to be limited to its dividend payments, which at almost a 5% yield offer decent compensation.

However, growth investors are going to be looking for more than just dividends. I am going to have a look at the stock and the company to assess whether it is realistic to expect the share price to hit over $60 anytime soon, and whether it can stay above that price point.

Stock history and valuation

If we expand our scope to the past few years, we notice that BCE's stock first started approaching the $60 mark in 2015. However, in 2015 the share price found support at a price of only $52 whereas in 2016 and 2017 that support has moved up to around $57.

Currently the stock trades above 18 times its earnings per share while **Rogers Communications Inc.** is at a multiple of 32 and even **Shaw Communications Inc** that isn't as diverse in its operations trades at 25 times earnings. It would stand to reason that in relation to its competitors that BCE should be able to trade at a higher multiple. The company's price to earnings multiple would only need to climb to 18.52 to reach a share price of $60.

Even if we compare price-to-book ratios, BCE's multiple of 3.6 is far less than Rogers that trades at almost six times its book value.

Is BCE undervalued?

By looking at its multiples, it would certainly seem that BCE should be trading at a higher price point given how well it has performed.

However, one ratio that I find helpful in assessing earnings multipliers is the PEG ratio. The PEG ratio divides the company's earnings per share by the company's growth to asses to help determine if the stock is overvalued for the amount of growth it has achieved.

In three years BCE has grown its earnings per share by an average of 9.4% per year, which would yield a PEG ratio of just under two. A PEG ratio of under one indicates a good value for the amount of growth the company has seen, so from this calculation BCE's stock would appear to be overvalued. By comparison, Rogers has actually seen its earnings per share drop and is about half of the amount it was three years ago.

Bottom line

BCE should be able to see its stock price hit $60 but how long it will take to get there is the big question. Compared to its peers BCE's stock looks to be undervalued and should have a lot of upside left in its price. However, unless there is a big earnings surprise it looks like the stock might be destined to be stuck in a range, at least until the TSX gets going again.

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