# Here's Why BCE Inc. Should Stay in Your Portfolio

## Description

When the Bank of Canada hiked interest rates for the second time this year, investors immediately started contemplating their investment portfolio mix for companies that would be susceptible to the increased cost of borrowing.



One of the companies that is often lumped into that crowd is **BCE Inc.** (TSX:BCE)(NYSE:BCE).

BCE is the largest telecom in the country and has a media empire that blankets Canada's population without many of us even realizing it.

**Interest rates are rising, but don't sell … yet**

One of the biggest concerns with rising interest rates is that the cost of borrowing becomes more expensive. Companies that have significant levels of debt could see free cash and dividends squeezed, so that debt payments remain on schedule.

This is one concern that is often cited with respect to BCE. BCE has a significant debt load — a whopping US$23.4 billion — but looking a little deeper at that debt reveals a different story.

BCE's debt-to-equity ratio remains in a more favourable position than any of its peers, coming in at 1.25 with the closest of the Big Three telecoms coming in at 1.63. Another key point to consider is that many of BCE's current debt obligations have fixed rates with maturities that span a decade or more.

Additionally, most, if not all, of BCE's competitors lack the established infrastructure that BCE has and do not have a media empire on par with BCE to fall back on or augment earnings.

In other words, don't expect the most recent rate hikes to cause panic in the BCE boardroom anytime soon. Investors can expect BCE to continue to pay that handsome dividend.

**There's still plenty of upside to BCE**

BCE's massive infrastructure, in many ways, remains the crown jewel of the company, providing a backbone for delivering the company's core subscription services to the masses. That infrastructure also allows BCE to keep such an impressive dividend.

The current dividend, which pays out $0.72 per share, provides a very appetizing 4.85%, which far exceeds the paltry interest rate hike. BCE last raised the dividend earlier this year.

Critics of BCE often cite that the company lacks any significant growth opportunities in part due to that dividend. The recent acquisition of Manitoba Telecom Services Inc. puts that fallacy to rest. Through the completion of that deal, BCE added over 220,000 internet, 109,000 IPTV, and 477,000 wireless subscribers.

Together, those new subscribers should provide a welcome boost to earnings for the company over the next few years, and cost synergies from the deal should provide a boost as well.

**Should you invest in BCE?**

In my opinion, BCE is a great investment opportunity, provided you're looking at the longer term. The current environment of interest rate hikes could see BCE experience a bit of a price pullback, but if your focus is on growing your portfolio for the long term, the added value of reinvesting BCE's great dividend could be the deciding factor.



**CATEGORY**

1. Dividend Stocks
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