BCE Inc.'s Q3 Subscriber Growth Negated by Rising Costs

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) released its third-quarter results today. Revenues reached $5.6 billion — up 5% from last year. Earnings also showed a modest 2% improvement, although earnings per share of $0.86 were down from $0.87 a year ago.

I'll take a closer look at the quarterly results to see what drove these improvements and if BCE is a good buy today.

The company saw subscribers increase in all of its segments

BCE added 106,982 net wireless subscribers in Q3, which is up from 100,256 a year ago. Postpaid wireless subscribers were up 117,182, while the prepaid side saw a net loss of over 10,200 customers.

High-speed internet subscriptions were up 44,424, and 12.8% more than the 39,375 net additions last year.

Has cord cutting stalled?

BCE added net 1,738 television subscriptions, which is a big improvement over the 4,723 net loss it showed a year ago. **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) in its Q4 results also saw a turning of the tide with cable subscribers increasing, rather than the declines the company had seen in the previous year.

However, **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) still continued to see the bleeding in its latest quarter.

Whether cord cutting has slowed down or the remaining subscribers were never really threats to leave doesn't ultimately make a difference. With minimal gains from television subscribers seen by BCE and Shaw, the real question will be if cord cutters come back, or if the lost subscribers are gone for good.

Adjusted EBITDA growth of 5.8%

Although BCE saw strong subscriber growth this quarter, operating revenue increases of 5% from last year were partially offset by a 4.4% increase in operating costs. A couple of big reasons for the risings costs include higher programming costs as well as increased promotional activities and focus on customer retention.

However, BCE still saw an improvement of $130 million in adjusted EBITDA.

Increased EBITDA used to offset rising costs

Unfortunately, the increase in EBITDA had to go to offset other rising costs on BCE's financials.

The company saw over $106 million added to its depreciation and amortization expenses this quarter compared to last, as the previous year did not include the results of the MTS acquisition. In addition to having more assets to amortize and depreciate as a result of the acquisition, BCE has also made investments to its services, which would have resulted in higher costs for these line items as well.

BCE also saw other expenses rise by $43 million, which was mainly the result of losses from equity investments and early debt redemption costs.

Income taxes were down $47 million for the quarter and were one of the few spots on the income statement that didn't see costs rise. Without the tax savings, BCE would have seen a drop in earnings for the quarter as other operating costs increased $160 million and more than offset the $130 million increase that BCE saw in its adjusted EBITDA.

Is BCE a buy today?

The company had good growth and has shown that it can continue to increase its subscriber base, despite adverse industry conditions. The stock provides a good and stable investment for those looking for consistency and a strong dividend, but don't expect much in the way of capital appreciation.

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