BCE Inc.: Why Now May Be a Wise Time to Take Profits Off the Table

Description

Shares of **BCE Inc.** (TSX:BCE)(NYSE:BCE) rallied 1.66% in the trading session following the release of its Q3 2017 earnings results. The results were promising, with year-over-year (YoY) increases across the board, including subscriber gains in the wireless, internet, and TV segments of 7.5%, 8.8%, and 2.9%, respectively on a YoY basis. Although the quarter was something to be excited about, shareholders may find it an opportune time to do some trimming before longer-term headwinds start to show in the company's quarterly results.

Solid Q3 2017 results could spark a modest rally

BCE clocked in operating revenues of $5.678 billion, up 5% compared to the same quarter last year. Adjusted earnings per share (EPS) was recorded at $0.88, down 3.3% YoY. Free cash flow jumped to $1.183 billion for the quarter, up 24.4% YoY.

The company also showed no signs of slowing down, as subscribers across wireless, high-speed internet, and TV jumped by a fair amount compared to the same quarter last year. While it appears that industry-wide headwinds aren't affecting BCE's subscriber growth, it's worth keeping in mind that such headwinds are medium- to long-term headwinds that will gradually hurt BCE's numbers over time.

BCE is a massive company that will really start struggling to satisfy investors' hunger for growth, even if more acquisitions are made. Although the dividend yield may be the largest of its peers at 4.75%, I believe investors would be better off with one of the lower-yield, higher-growth names, which would likely offer superior dividend growth and capital gains over the coming years.

Should the post-earnings rally continue, I'd strongly urge long-term investors to start trimming their positions, as the stock is very likely to underperform over the course of the next three years.

Valuation

Shares of BCE currently trade at a 18.67 price-to-earnings multiple, a 3.69 price-to-book multiple, a 2.45 price-to-sales multiple, and a 7.6 price-to-cash flow multiple, all of which are higher than the company's five-year historical average multiples of 16.7, 3.6, 1.9, and seven, respectively.

Based on traditional valuation metrics, the stock is expensive, likely because investors value both the stability and the size of the dividend. However, given industry-wide headwinds that are on the horizon, such as higher interest rates, increased competition, and the increased probability of regulatory changes, I'd avoid shares of BCE like the plague. The stock is expensive, and I think returns over the next year will be meagre compared to those of the past.

Bottom line

Investors who seek stability and a high-yield will get exactly that from BCE; however, growth and capital gains will suffer going forward, so it's time to either readjust expectations or to dump the stock in favour of a higher-growth name, like **Telus Corporation** (TSX:T)(NYSE:TU) or **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR), both of which have solid dividends with superior growth profiles.

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