Could BCE Inc. Hit $70?

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) is catching a bit of a tailwind, and investors are wondering if the rally has the potential to take the stock to new highs.

Let's take a look at the current situation to see if the communications giant deserves to be in your portfolio.

Financials

BCE reported steady Q3 2017 earnings results and continues to generate attractive free cash flow.

Net earnings for the quarter came in at $817 million, representing a 2.1% gain over the same period in 2016. Cash flow from operating activities rose 14.9% and pushed free cash flow up 24.4%.

The company saw nice gains in the wireless business, with a 9.2% rise in postpaid net subscriber additions. Blended average revenue per user (ARPU) rose 3% year over year to $69.78, driven by strong uptake on higher-value rate plans and a 26% increase in data consumption by the company's wireless LTE customers.

The IPTV and internet services also enjoyed year-over-year growth. Bell TV picked up 36,399 net new IPTV subscribers and 44,424 net new and high-speed-internet customers during the quarter. The company continues to expand its direct fibre service penetration and is picking up new subscribers as a result.

BCE is primarily known for its mobile, TV, and internet services, but the company also has a large media division. Operating revenue in the media group rose 1% compared to Q3 2017, supported by higher advertising and subscriber revenues.

Growth

BCE closed its acquisition of Manitoba Telecom Services earlier this year in a deal that bumped the communications giant into top spot in Manitoba and set the company up for an expansion of its presence in the western provinces.

In addition, BCE just announced plans to acquire home security provider AlarmForce. The AlarmForce deal makes sense, given BCE's existing relationship with millions of Canadian homeowners.

Dividends

BCE pays a generous dividend supported by its strong free cash flow. The current distribution provides an annualized yield of 4.7%.

Free cash flow growth is expected to be 5-10% in 2017, so more dividend increases should be on the way. The company's payout policy is to distribute 65-75% of free cash flow to shareholders.

Risks

Some pundits say rising interest rates could trigger a flow of funds out of BCE and other dividend stocks. It's true that a percentage of investors might shift their money to GICs if the rates become attractive enough, but interest rates have a long way to go before they match BCE's current yield.

BCE finished Q3 2017 with net debt of $24.5 billion. As interest rates increase, the cost of borrowing will rise, and that could put a pinch on cash flow available for distributions.

Could the stock hit $70?

At the time of writing, BCE trades for about $61 per share, putting the trailing price-to-earnings (P/E) ratio at close to 19.

That isn't cheap on a historical basis, so investors have to be careful chasing the recent rally. However, accepted P/E multiples can expand, and BCE's Canadian peers are all trading at more expensive levels, so there is a chance the market could push BCE as high as $70.

Should you buy?

I wouldn't back up the truck, hoping for big capital gains in the near term, but BCE remains an attractive buy-and-hold pick for dividend-focused investors.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/23
Date Created
2017/11/16
Author
aswalker