BCE Inc.: Is the Pullback a Signal to Buy?

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) has given back some gains over the past two weeks, and investors with an eye on a dividend pick for their income portfolios are wondering if this is the right time to buy the stock.

Let's take a look at the current situation to see if BCE is attractive today.

Interest rate impact

In recent years, the drop in interest rates has triggered a large flight of capital to dividend stocks, such as BCE, that provide stable distributions and offer better returns than the historic go-to choices, which included GICs or even savings accounts.

Now, it appears the tide is finally turning on the interest rate front, and some pundits say the telecom and utility stocks could see a multiple reset.

The U.S. Federal Reserve raised rates three times in 2017 and indicated another three moves could be in the cards for 2018. Canada surprised the markets with two rate hikes in 2017 and might follow the lead of its southern neighbour next year. In fact, recent economic data has analysts predicting a rate hike in Canada in the first quarter.

As a result, investors are somewhat concerned there might be a reversal of funds out of BCE and back into zero-risk, fixed-income options as rates increase. This is likely the reason for the pullback in the stock in recent weeks.

Growth

BCE is a giant operating in a mature market, so it isn't expected to shoot the lights out when it comes to growth. The company has made some interesting moves, however, that should keep revenue and income rising at a steady clip.

What's up?

BCE closed its purchase of Manitoba Telecom Services earlier this year in a move that bumped the giant into top spot in the Manitoba market and set it up for an expansion of its presence in the western provinces.

The company is also buying AlarmForce, a home security service. The addition will give BCE another product to sell to its millions of residential clients.

Finally, BCE just launched a new prepaid mobile business, Lucky Mobile, to get back into the low-cost mobile sector.

Dividend safety

BCE's dividend should be very safe. The company generates adequate free cash flow to support its generous payout, and distribution growth should continue at a steady pace.

At the time of writing, investors can pick up a 4.8% yield.

Should you buy?

There is a risk BCE could see more downside, but the pullback probably won't be significant. Once the yield approaches 5%, investors tend to start buying the stock.

Interest rates are likely headed higher, but the increases are not expected to be large and it will be some time before a GIC gets remotely close to the yield you get from BCE.

If you are looking for a buy-and-hold stock to add to your income portfolio, I think BCE looks attractive at the current price.

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