# BCE Inc. Stock: Is This Juicy 5% Dividend Yield a Bargain?

## Description

As the Bank of Canada is forecast to resume its interest rate hikes on January 17, some of the top dividend stocks in Canada might underperform the broader market due to their sensitivity to interest rate changes. **BCE Inc.** (TSX:BCE)(NYSE:BCE), Canada's top telecom operator, is one of them.



During the past one month, BCE stock has lost ~9% of its value on concerns that the rising interest rates will diminish the investment appeal of dividend stocks. Is this a long-term bearish signal for BCE, or should dividend investors take this pullback a buying opportunity? Let's analyze the situation.

**Interest rate outlook**

As we finished 2017, it was almost a consensus in the financial markets that the central bank would leave interest rates unchanged for a few months, as negotiations on NAFTA's future stalled, and the future looked uncertain.

But that situation changed quickly, as most of the economic indicators presented a picture of the economy, which was on strong footing with the unemployment rate falling.

With the next rate-setting meeting by Bank of Canada on January 17, there is a consensus among the top five Canadian banks that Stephen Poloz, the central bank governor, is set to hike rates.

This is the backdrop of the recent pullback in BCE stock, which is one of the best dividend stocks to earn stable income through its solid dividends.

Higher borrowing costs aren't good for dividend-paying companies because they hurt their profitability.

But rising bond yields also diminish a dividend stock's investment appeal, as investors seek higher returns when compared to fixed-income investments, such as treasuries.

**BCE business outlook**

Besides the changing macroeconomic picture, BCE is also facing some fundamental challenges for its business, which include stiff competition in the wireless market and consumers' changing preferences on how they consume entertainment content.

Judging by the stock performance of the country's top three telecom operators, it seems investors are less excited about the BCE and its ability to deal with these challenges. BCE stock has underperformed big telecom stocks both in the short run and over the past 12 months.

**Should you buy BCE stock on the dip?**

I think this weakness in BCE stock is a temporary phase. The company's fundamental outlook looks challenging, but it has massive scale and resources to stay ahead of the pack. BCE is investing billions to improve its wireless, TV, and internet services and retain the loyalty of it customers.

In the short run, however, dividend investors should expect more pressure on the BCE stock as the bond yields climb. I would take any further weakness as a buying opportunity, especially when its dividend yield has already reached a highly attractive level.

Trading at $57.92, BCE shares are close to the 52-week low and in oversold territory. With an annual dividend yield of ~5%, BCE stock is an attractive option for income investors.



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