3 Reasons to Scoop Up BCE Inc. Right Now

Description

In late 2017, the Public Interest Advocacy Centre began to apply significant pressure on the Canadian Radio-television and Telecommunications Commission (CRTC) to review the sales practices of major Canadian telecommunications companies. Thus far, the CRTC has not moved forward on a formal review, but pressure continues to build.

Worse for telecom companies and stocks has been the blowback from anxiety over rising bond yields and interest rates in Canada and around the developed world. Utilities and real estate stocks, which have emerged as favourites for investors seeking solid income in a historically low interest rate environment, have also been pummeled.

Investors should not shy away from telecom companies at this stage, especially in the midst of explosive wireless customer growth. Today, we will look at one of the top Canadian providers and view three reasons why it is worth picking up right now.

Rock-solid Q4 earnings

BCE Inc. (TSX:BCE)(NYSE:BCE) is the largest telecommunications company in Canada. BCE stock has dropped 6% in 2018 as of close on February 26 and is down 2.5% year over year. The company released its 2017 fourth-quarter and full-year results on February 8.

BCE reported adjusted net earnings of $684 million in Q4 2017 compared to $667 million in the prior year. For the full year, BCE saw adjusted net earnings rise 0.8% to $3.03 billion. Adjusted EBITDA also increased 4.4% on the year to $9.17 billion.

The company was powered by impressive wireless growth. It reported 234,728 net broadband customer additions, which represented a 40.8% increase from the prior year. Of those additions, it posted 175,204 wireless postpaid additions, 27,040 Internet, and 32,484 IPTV additions.

For its 2018 outlook, BCE leadership projects its strong wireless subscriber growth to continue and also expects its direct fibre footprint to lead to a higher market share of broadband households.

BCE offers a highly attractive dividend

In its fourth-quarter results, BCE hiked its annual dividend by 5.02%. It now offers an annual dividend of $3.02 per share, representing a 5.3% dividend yield. BCE has now delivered 10 consecutive years of dividend growth. Investors that are mulling over RRSP and TFSA contributions should seriously consider BCE as a top target in 2018.

BCE is oversold amid interest rate anxiety

The S&P/TSX Index has declined 3% in 2018 so far. However, since dropping below 14,800 points in early February, the index closed at 15,714.66 on February 26. The global stock market rout in late January and early February was sparked by fears over rising bond yields in the United States and the developed world.

Telecom stocks have been regarded as premier income generators, as bond yields plummeted to historic lows following the 2007-2008 financial crisis. The Bank of Canada and central banks in the developed world remain on a path of rate tightening, but policy makers are calling for caution. Canada in particular continues to wrestle with turbulent conditions in its housing markets and record high household and consumer debt.

The Bank of Canada has also dropped its “neutral” benchmark rating to 2.5% to 3.5%. Interest rates are likely to remain near historic lows as we look ahead to 2020, and BCE remains a highly attractive long-term hold.

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