BCE Inc. vs. Shaw Communications Inc.: Which Telecom Stock Is a Better Buy?

Description

Keeping a couple of telecom stocks in your income-producing portfolio is a great idea. The logic is that telecom operators are great cash cows, meaning their positive cash flows will be there for dividends investors, as long as you continue to pay your telecom bills.

For Canadian investors, this is not a strange concept. Those who invested in one of the top three operators know that telecom stocks provide a good avenue to earn steady income. Today, let's have a look at **BCE Inc.** (TSX:BCE)(NYSE:BCE) and **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) to see which stock offers better value.

BCE

BCE is Canada's largest telecom operator with a long history of rewarding its investors. BCE operates in an environment where it's tough for the new entrants to challenge its dominance. In Canada, the telecom market is divided among four players which control about 80% of the broadband and video market and more than 90% of the wireless market.

While announcing its fourth-quarter earnings, BCE reported its best quarterly wireless performance in many years, adding 175,204 wireless subscribers in the three months ending December 31, up 56% from the same period last year. This was its best quarterly performance in 15 years.

The strong gains in its wireless division helped the company beat analysts' forecasts for its net income, excluding one-time items. BCE earned $0.76 per share, beating the average analyst estimate of $0.75, according to **Thomson Reuters**. Its operating revenue rose 4.5% to $5.96 billion.

On the dividend front, BCE has a solid history. The company has a policy to distribute between 65% and 75% of its free cash flows in dividends.

BCE has hiked its annual dividend by 107% since the fourth quarter of 2008; it's now at $3.02 per share. Trading at $57.53 and yielding 5.37%, BCE stock offers a good bargain after a recent pullback in its share price.

Shaw Communications

Shaw is a small operator in Canada which is fast gaining the market share in the nation's wireless market after it acquired Freedom Mobile.

Many telecom analysts believe Shaw will play the role of disruptor, as its management targets to capture at least a quarter of the Canadian wireless market through its Freedom Mobile network.

But the journey hasn't been trouble-free for Shaw, despite the fact that it's attracted a significant number of customers to its wireless division. The operator needs to invest heavily in its network to improve the quality, which has been very erratic.

In a response to the company's voluntary buyout offer recently, about a quarter of the staff took the offer, creating an impression that Shaw won't be able to service its customers after this massive departure.

The Calgary-based company, which owns Canada's second-largest cable TV operation and the country's fourth-largest mobile phone service, had initially aimed the package at 6,500 employees and estimated about 10% would accept the deal.

Trading at $24.93, Shaw stock offers a 4.75% yearly dividend yield, which translates into a yearly payout of $1.19 a share.

Which one is better?

For risk-averse investors, I think BCE stock is a better bet, especially when its stock is offering a much juicier yield when compared to its five-year average. Shaw is a good option if you want a greater capital appreciation, as the company is in a growth mode and has the potential to surprise.

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