BCE Inc. Stock: Is This Top Dividend Stock a Buy After a 13% Plunge?

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) stock has been under pressure for the past four months, falling more than 13% on concerns that rising bond yields and stiff competition from rival operators would hurt the company's profitability.

The latest earnings report from **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR), the smaller of the country's four top telecom operators, shows that that threat is probably real. Shaw reported last week that its Freedom Mobile division added 93,500 new contract customers in the quarter ended February 28. These additions were almost double the analysts' estimates of 45,000 to 50,000 for the quarter.

Shaw's executives also predicted that this robust growth at their wireless business will continue, mainly after the addition of the iPhone to its handset lineup, network upgrades, expanded distribution and low-cost monthly data packages. In Canada's not-very-competitive telecom market, one's gain means someone else's loss. And that's one of the biggest drags on the shares of BCE.

But despite these threats, we have not yet seen BCE's bottom line being affected. In the last quarterly release, BCE reported its best quarterly wireless performance in 15 years, adding 175,204 wireless subscribers in the three months ending December 31, up 56% from the same period last year.

The other main contributing factor in BCE stock's poor performance is the threat of rising interest rates in North America. Both Bank of Canada and the Federal Reserve are in the tightening monetary policy mode, and that means telecom utilities are becoming less attractive for income investors when compare with fixed-income securities, such as government bonds.

Should you buy BCE stock on the dip?

For long-term income investors, any weakness in top dividend stocks that command a great economic moat may present a good buying opportunity. There is no doubt that competitive pressure coming from Shaw is a threat that won't go away quickly, but Canada's largest telecom operator has a wide moat to defend its turf.

The company has invested tens of billions of dollars in everything from wireless to data lines to media assets. BCE is rapidly expanding Canada's broadband fibre and wireless network infrastructure, with annual capital investments surpassing $4 billion. This size and scale of BCE makes it very tough for new players to destroy the company's enterprise value and snatch away its loyal customers.

Trading at $53.96 and with an annual dividend yield of 5.6%, the highest when compared to the company's five-year average yield, I think BCE stock offers a good bargain for buy-and-hold investors.

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