



BCE Inc.: Is This Top Canadian Dividend Stock Oversold?

Description

Retirees and other dividend investors are searching for top-quality Canadian companies with reliable and growing [payouts](#).

The downturn in the market in recent months is finally providing an opportunity to pick up some industry leaders at attractive prices, while offering above-average yield.

Let's take a look at **BCE Inc.** ([TSX:BCE](#)) ([NYSE:BCE](#)) to see if it deserves to be on your buy list today.

Growth

BCE bought Manitoba Telecom Services last year in a deal that launched the giant into top spot in the Manitoba market and gave the company a strong base in central Canada.

BCE also launched its new low-cost prepaid mobile service, Lucky Mobile. The business initially rolled out in Ontario, B.C., and Alberta last December and recently became available in Manitoba and Saskatchewan.

In addition, BCE closed its purchase of home security provider AlarmForce in January. The deal gives BCE a portfolio of new products, including intrusion, smoke, flood, and carbon monoxide detection services to offer its existing clients from Manitoba to Atlantic Canada.

BCE continues to roll out its fibre-to-the-home initiative. The program should help the company retain customers, as it provides state-of-the-art data capabilities straight into the living rooms of its customers. In the GTA alone, BCE is providing fibre to the premises of 1.3 million homes and businesses.

The new assets should help strengthen BCE's leadership position in the Canadian communications market and provide added support for revenue and cash flow growth.

Earnings

BCE reported steady results for 2017. Operating revenue rose 4.6%, and adjusted EBITDA increased 4.4%. Free cash flow, which is arguably the most important metric for dividend investors, rose 6% compared to 2016.

The company is targeting 2018 revenue growth of 2-4%, adjusted EBITDA growth of 2-4%, and free cash flow growth of 3-7%. The targeted dividend payout is 65-75% of free cash flow.

Dividends and share buybacks

BCE currently pays a quarterly dividend of \$0.755 per share for an annualized [yield](#) of 5.6%. The company also has a share-buyback program in place that allows BCE to repurchase up to 3.5 million common shares from February 13, 2018, to February 12, 2019.

Investors should see the dividend continue to rise in step with improvements in free cash flow.

Should you buy?

The stock is down from \$63 in December to about \$54 per share. The market is concerned that rising interest rates will increase borrowing costs and restrict cash flow available for distributions. In addition, there is the potential for a shift of funds out of telecom and utility stocks and into fixed-income alternatives as rates rise.

While these are valid points, the pullback in BCE's stock price might be overdone. The current dividend should be very safe, and it will be some time before a GIC offers anywhere near the 5.6% you get from BCE today.

If you are looking for a reliable high-yield dividend pick for a buy-and-hold portfolio, BCE deserves to be on your radar right now.

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