



Is BCE Inc. Finally a Top Pick for Value-Conscious Income Investors?

Description

BCE Inc. ([TSX:BCE](#))([NYSE:BCE](#)) was a market darling for so many years. Not only did you have a stable and growing income stream, but you did pretty well when it came to capital gains as well, and you really didn't have to risk your shirt to receive above-average total returns.

The capital gains and the huge dividend payout from BCE stock went together like peas in a pod, and, as a result, the stock was typically a core holding for growth investors, income investors, and everybody in between. It was truly the best of both worlds, but lately, it appears that the stock has run out of momentum, and the long-term chart is suggestive of a considerably tougher environment ahead.

We're likely going to be in a rising interest rate environment for a very long time, and that's bad news for the telecoms, which regularly spend a considerable amount on infrastructure upgrades. With the 5G wireless revolution on the horizon, higher rates couldn't have come at a worse time.

Moreover, with **Shaw Communications Inc.** ([TSX:SJR.B](#))([NYSE:SJR](#)) threatening to disrupt the cartel-like pricing structure of the Big Three giants, BCE's Bell Wireless division is going to have an even tougher time retaining its subscribers without taking a dent to its bottom line.

Not only is BCE going to need to pour cash into 5G infrastructure, while borrowing costs move marginally higher by the year, but its margins could stand to be lowered gradually over the next five years, as Shaw's lower-cost model will begin to pick up momentum at the expense of the Big Three incumbents like BCE.

Although the Big Three have decided not to permanently lower wireless rates in response to Shaw's aggressive wireless promo, which offered \$0 down on new phones with cheap 10 GB monthly data plans, it's clear that the Big Three players, BCE included, are starting to feel the pain, as they temporarily matched Shaw's plan with one of their own, albeit for a limited time only.

Naturally, one can only expect that the Big Three's rates (BCE included) will gradually fall in conjunction with the rate of wireless subscriber losses caused by a lower-cost entrant. It's not just lower rates; over the next decade, I suspect the cartel-like structure of the Big Three will dissolve entirely, as each firm begins to offer aggressive promos and take a more active role in poaching

subscribers away from the competition.

The fight for subscriber retention has just begun!

BCE has already exhibited aggressive (and [unethical](#)) sales tactics in the past to “poach” subscribers away from competitors or to increase its average revenues per user through the use of door-to-door salesmen, who tend to mislead (prospective) customers for commissions, according to a recent investigative report conducted by the *CBC*.

One could only hope that regulators will step in to prevent such tactics from happening. So, the only ethical approach for such a fiercely competitive environment will be U.S.-style promos (like buy one, get one free) as Big Three incumbents begin to spend more to retain its subscribers.

Higher interest rates, increased competition, slower growth, oh my!

Given that BCE is an absolute behemoth, growth is going to be ridiculously hard to come by over the next five years and beyond. Although shares appear to be slightly undervalued after the recent dip, I still don't think shares are worthy of a buy today, because of the numerous headwinds that will not only stunt growth, but dividend growth, too.

If you're keen on obtaining a high yield, however, you may wish to wait until the stock dips low enough such that the yield (currently at 5.6%) breaks the 6% mark.

Stay hungry. Stay Foolish.

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Author

joefrenette

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