Why it's Time to Break Up With This Overrated Dividend Darling Right Now

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) is one such market-darling that investors are having a tough time breaking up with. Despite falling ~14% from glory (all-time highs), the stock is still quite expensive at 17.73 times trailing earnings.

I've been bearish on BCE for quite some time, and although the stock seems fairly valued compared to historical average valuation metrics, BCE is going to find it tough to grow, partially because of its massive size, but mostly because the Canadian government is slated to push for more competition in the Canadian wireless scene. That means that BCE may face hurdles (along with its Big Three peers) while a new wireless entrant (whose name I shall not speak) will be granted privileges at future Spectra Energy Partners' auctions and various other advantages courtesy of the Government of Canada.

On the fixed-line side of the business, which accounts for ~60% of total revenues, there's fierce competition on the east coast. Moreover, BCE is overexposed to more depreciating assets than that of its smaller and more agile peers. BCE owns a remarkable number of landline and satellite television assets, which appear to be going the way of the Dodo Bird. Over the next few years, as 5G gets rolled out, BCE (and its peers), will experience a rapid rate of asset depreciation thanks to technological advances.

Looking ahead, BCE is going to need to open its wallet big time in order to continue to build on its 5G and fibre assets. Unfortunately, the rising rate environment means that borrowing costs are rising. And this, along with increased competition and potential regulatory hurdles thrown into the mix, means that BCE remains severely overvalued despite seemingly "cheap" valuation metrics.

BCE is a gigantic ship that's going to be ridiculously hard to turn around, and although wireless growth remains strong, I don't believe it's indicative of a longer-term trend. In fact, I think peak subscribers are a more likely scenario than continued subscriber growth momentum.

Bottom line

The fat 5.54% dividend yield seems attractive to conservative income investors, but don't be fooled! The stock isn't cheap enough when you consider the huge headwinds that will likely have an insidious effect on top-line results moving forward.

With this in mind, I think the stock deserves to be much cheaper, and I'd encourage investors to avoid the stock until the dividend yield is at least 6.5%. If you can't have meaningful growth in a tough environment, you might as well have a large upfront yield.

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Author
joefrenette