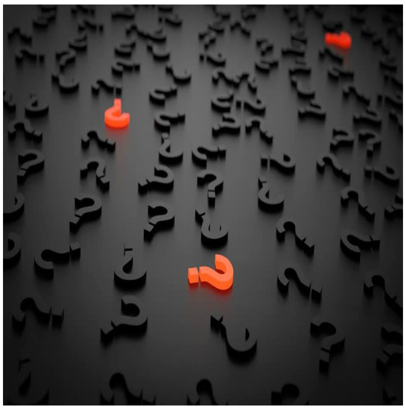

Is BCE Inc. or Enbridge Inc. Oversold?

Description

Contrarian investors are always searching for beaten-up stocks that might generate some nice returns on a recovery.

Let's take a look at **BCE Inc.** (TSX:BCE) (NYSE:BCE) and **Enbridge Inc.** (TSX:ENB)(NYSE:ENB) to see if one deserves to be on your buy list right now.

Rate fears

BCE and Enbridge are both down amid market fears that rising interest rates will trigger a sell-off of go-to dividend stocks in favour of fixed-income alternatives. Higher rates also boost borrowing costs and can put a dent in cash flow available for distributions.

These are valid points to consider for both companies, but the price drops might be overdone.

BCE

BCE is down from close to $63 per share last December to about $55. The beef the market has with the company is the limited opportunity for long-term growth, but BCE continues to build on its dominant position in the Canadian communications market.

The giant bought Manitoba Telecom Services early last year, launching its low-cost prepaid phone service, Lucky Mobile, in late 2017. The company then closed its purchase of AlarmForce in January, rounding out a busy 12-month program. At the same time, BCE continues to expand its fibre-to-the-premises installations, thereby paving the way for the company to ensure it can meet the growing demand for data.

BCE generates adequate free cash flow to support its dividend and has the power to raise prices any time it needs more money. In addition, the CEO recently made the point that rising interest rates can help the company's pension fund generate better returns, meaning that BCE shouldn't have to put in as much money to cover shortfalls.

At the current stock price, investors can pick up a 5.5% yield.

Enbridge

Enbridge is down from $51 per share a year ago to $42. The shares are actually up a bit after sinking to a five-year low around $38 per share in April.

In addition to rate fears, the market is wondering where Enbridge will get long-term growth, given the broad-based negative sentiment toward big pipeline projects. Some of the pain might also be attributed to concerns about the company's debt levels.

On the positive side, Enbridge is working through a strategic transition that will see the company focus on its core regulated businesses. As part of the process, management has identified $10 billion in non-core assets that will be monetized, with more than $3 billion going this year.

The net proceeds will be used to pay down debt, shore up the balance sheet, and fund ongoing developments.

Enbridge has $22 billion in near-term projects on the go that should be completed through 2020. As the new assets go into service, cash flow should rise enough to support continued dividend growth. The company raised the payout by 10% for 2018 and has increased the distribution for 23 straight years.

At the time of writing, the stock provides a yield of 6.4%.

Is one a better bet?

At this point, I would probably make Enbridge the first pick. The dividend growth over the medium term will likely outpace that of BCE, and there should be better upside opportunity in the stock from the current price level.

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