Buy BCE (TSX:BCE) Stock or This Major Competitor?

Description

Across the board, telecoms' share prices have been falling, while dividends have been slowly creeping up. Debt and low growth may behind the dip, though it could be that concerns about market instability have simply been driving investors to more defensive sectors.

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Canadian telecoms stock **BCE Inc.** (TSX:BCE)(NYSE:BCE) has been getting a lot of air time of late, as investors are enticed by a decent dividend yield that rivals those of its competitors. But is this stock a buy, or should passive income investors look to BCE's competition for assured dividends and higher growth?

Time to ring some changes…

BCE's falling share price has led to today's discount by 31% compared to the stock's future cash flow value. While that seems to be a good thing, a glance at its multiples are calling this stock out. A P/E of 18 times earnings is a little high, both for the sector and for the TSX index as a whole. But it gets worse: a PEG of 3.3 times growth indicates poor value based on the expected growth of this stock.

By the time we get to BCE's high P/B ratio of 3.1 times book, the value heralded by that discount is really starting to evaporate. A 5.4% expected annual growth in earnings isn't as significant as it could be.

While BCE's return on equity was 15% last year, those multiples are a bit off-putting. The dividend yield of 5.39% on offer is certainly tempting, and it beats the 2.88% yield offered by **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI). However, value investors have to ask themselves whether it's worth buying a telecoms stock at three times it book price.

Rogers Communications is on the phone: it wants its headline dominance back

Rogers Communications is currently discounted by 15% compared to its future cash flow value. However, looking at its fundamentals, we can see an intriguingly similar pattern forming. As with BCE's multiples, Rogers Communications has a slightly high P/E. Up at 18.8 times earnings, this ratio is alittle too warm for the industry as well as for the Canadian market in general.

The stock's PEG of 1.8 times growth is a little high, too, indicating that this stock could be better value for money. But what really takes the biscuit is that P/B of 4.7 times book. A 10.3% expected annual growth in earnings doesn't go far enough to sell a stock trading at well over four times its book price.

Return on equity for this stock was 25% last year, signifying that Rogers Communications made better use of its shareholders' funds last year than BCE did. However, its dividend yield of 2.88% is somewhat lower than BCE's, leaving income investors with a tough decision.

The bottom line

Both stocks have high levels of debt, and this should be factored into whether investors really want to buy over book. BCE's total liabilities are less than those of Rogers Communications, though the latter has been reducing debt while the former continues to accumulate it.

Neither of these stocks is looking like a buy at the moment based on those wayward multiples and high debt levels. While their dividends are tempting, would-be buyers may want to wait for better figures or stick to more defensive sectors for their dividends.

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