Is BCE Inc. (TSX:BCE) a Steal at $53?

Description

BCE (TSX:BCE)(NYSE:BCE) has been having a bad year. Starting off at $57.79, it's down about 7% year to date. The decline seems to be driven by a sector-wide slump in addition to an earnings miss in the second quarter. At the same time, BCE has some features that might make it a good pick, including a moderately low P/E ratio and a whopping 5.65% dividend yield.

Is BCE a steal at $53 or is it best to pass on it for now?

To start we need to look at the company's earnings.

Earnings woes and sales surprises

One reason that BCE might be down this year is an earnings miss in Q2. The company's earnings declined 7% and fell below analyst estimates of $0.88 per share. No doubt this contributed to negative investor sentiment, especially since the miss was well publicized.

However, the earnings miss may not be as big a deal as it looks. On the sales front, it was a record year for BCE. The company added 122,029 new subscribers — its best year by that metric in nearly two decades. On the whole, revenue edged up 1.7% — not great, but not a loss.

The earnings decline was therefore a product of rising costs, and these costs appear to be temporary. BCE is investing in new wireless networks. Once new infrastructure is built, the costs associated with building will cease to be a factor (though maintenance costs may apply). So, the costs that caused the earnings miss may be temporary.

Valuation

Another factor for BCE investors to consider is valuation. The company trades fairly cheap comparedto earnings, with a P/E ratio of 17.5 for the trailing 12-month period. When we compare earnings to growth, however, the picture appears less rosy: the company has a PEG ratio of 8.60. This no doubt comes from poor earnings growth. However, as I said in the previous section, the declining earnings may be a temporary condition, as their source lies in non-recurring investment costs.

Income

Last but not least, we come to the question of income. This is where BCE really shines. The stock pays an annualized dividend of $3.02 for a yield of 5.65% at the time of this writing. The company also has an outstanding record of raising its dividend. The quarterly dividend has gone from $0.68 in 2016 to $0.75 today. The company also has an uninterrupted history of paying the dividend — even during the 2008-2009 financial crisis, it was not cut!

If you're a dividend investor whose sole goal is to live off the dividend income, I would wholeheartedly recommend BCE. The combination of a high yield and steady dividend increases makes it a no-brainer.

But if you're eyeing growth, I'd hold off for now, as revenue growth is sluggish and some of the valuation metrics aren't too pretty.

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