Why Now Might Be the Time to Sell BCE Inc. (TSX:BCE)

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) has declined more than 11% so far in 2018, and things could be getting worse for big telecom stocks in Canada. This week, the CRTC began hearings regarding sales practices in the industry, which may result in more rules and tighter regulations for BCE and its peers.

Why might this be a problem?

Late last year, BCE was involved in allegations that it was engaged in aggressive sales tactics, some of which were uncovered by CBC Marketplace in an investigative report. The increased attention of the problem prompted the federal government to order an investigation into the practices. It's not just BCE, but also other companies have been accused of being less than honest with customers as well.

If the CRTC comes back with a conclusion that practices are too aggressive, then it's likely we'll see more restrictions placed on the industry's sales reps, which is likely to impact sales. While it's unclear how big of an impact aggressive tactics have had on sales growth, the end result of this is likely to put downward pressure on not only revenues, but profits as well.

The problem for BCE is that the company has already had enough trouble growing sales, as its top line has increased just 5.6% over the past couple of years, with much of that growth happening last year. Meanwhile, profits were down 4% in 2017 from the prior year. The company has plenty of challenges to grow sales, and more scrutiny on its practices will only complicate matters further.

The stock might still be a bit expensive

While BCE is facing some headwinds, its stock price is still a bit pricey even despite its recent slump. With the share price trading at around three times its earnings, BCE is not a cheap stock despite being at a price-to-earnings multiple of 17.5. If the company cannot find a way to continue to grow, it might be hard to investors to justify paying any premium for the stock, meaning that it could continue to drop further down in price.

Is it worth the dividend?

The one benefit for investors is that BCE's dividend yield is now up to 5.7%, which is pretty good for a blue-chip stock that's a fairly safe bet on the TSX. Not only is it a high yield now, but it could get even higher down the road, as in the past five years, BCE's dividend yield has risen by 30% for a compounded annual growth rate of 5.3%. The problem, however, is that if the company is facing tougher times ahead, then there's no guarantee that the current dividend rate will remain intact.

Bottom line

BCE's dividend is about the only thing good about the stock right now. The industry is struggling and the company is going to have to fight tooth and nail with its peers for customers, which isn't going to lead to a strong bottom line. In the end, you've got to like the company you're investing in, not just its dividend. And for that reason, BCE will always remain a strong sell for me.

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