This Top Dividend Stock Is Absurdly Cheap: Time to Buy?

Description

Rising bond yields are the biggest enemy for top dividend-paying stocks. In an environment when investors are hoping to get a much better yield from safe-haven government bonds, dividend stocks generally underperform.

That lingering threat is one of the main reasons that Canada's largest telecom operator **BCE** (TSX:BCE)(NYSE:BCE) has been under pressure for the past one year, losing about 13% of its value. Is this trend going to persist, and should investors continue to wait on the sidelines?

In the short run, it's tough to see interest rates reversing their course and the Bank of Canada cutting them. Currently, the market participants see at least two more rate hikes in 2019, as the Bank of Canada brings our rates to a neutral zone after the past decade of monetary incentive.

Despite this bleak short-term outlook for Canada's telecom stocks, I believe this is the best time to buy BCE stock and lock in its hefty 6% dividend yield. My logic to favour this strategy is simple: it's highly unlikely that Canada's top telecom operator will cut its payout due to this temporary setback. With the forward price-to-earnings multiple of 14.4, its valuations are compelling.

Growth initiatives

BCE has made many good bets in the past five years that have positioned the company to produce better returns for shareholders.

Among the few measures that will fuel future growth are its billions of dollars investment on fibre-optic network to support faster internet speeds and make the utility prepared to offer 5G, the next generation of wireless network technology.

The latest evidence of this strength came last week when BCE reported its strongest third-quarter growth in new wireless subscribers. BCE added 135,323 wireless customers on contract in the three months ended Sept. 30, the most in that period since 2012. The company said it also added 42,511 prepaid wireless customers in the quarter.

The company also reported growth in internet and television subscriber numbers in the quarter. BCE accelerated its growth in high-speed internet customers in the period, with 53,124 new additions.

Bottom line

BCE has long maintained a policy of increasing its dividend by 5% annually and has used a series of acquisitions to partly fuel the cash flow growth necessary to keep boosting the payout. The company pays $3.02 dividend a share annually. That amount has doubled in the past decade.

Its acquisition of Manitoba Telecom Services, new infrastructure spending, and the launch of its 5G service are some of the leading growth drivers that will improve both top- and bottom-line profitability in the near future.

For income investors, BCE stock is an attractive pick to earn growing income and benefit from its recent pullback, especially when its yield is reaching 6%.

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Date
2025/07/04
Date Created
2018/11/07
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