Is BCE Inc. (TSX:BCE) Stock Gearing Up for a Big Upside Surge?

Description

BCE (TSX:BCE)(NYSE:BCE) stock has begun to see a bit of relief in recent months thanks in part to panic selling across the broader market and a rotation out of speculative growth and back into dividend-paying value stocks.

I've been quite bearish on BCE over the past two years, and although it may seem that the stock is on the verge of returning to its old market-beating ways, investors need to take a step back and consider the headwinds that still exist, and they'll affect the company over the next five years and beyond. Interest rates are still on the rise, growth still looks stagnant, regulators are still fostering competition, and **Shaw Communications's** wireless business in Freedom Mobile isn't backing off.

So, why the optimism on BCE of late?

The company recently clocked in a nice top-line beat that saw 3% in year-over-year growth, and although EBITDA numbers came short of expectations due to the 30-basis-point drop in year-over-year EBITDA margins, management is staying the course with its original guidance — something that's rally-worthy considering how many firms downgraded their full-year forecasts in spite of impressive beats of late. It's clear that this earnings season is all about the sustainability of earnings over the next year, and less about the quarterly results themselves.

While BCE treats an increasing interest rate environment as a headwind, its stock has begun to look attractive again through the eyes of investors with its now generous dividend that yields 5.5%, slightly above BCE's five-year historical average yield of 4.8%. The dividend isn't as valuable as it was when rates were at rock bottom, but it's still sought after when you consider the stomach-churning amounts of volatility that Mr. Market has served up this autumn.

Moreover, investors are growing optimistic about BCE's fibre-to-the-premises (FTTP) buildout, which will allow the company plenty of room to serve new customers that are demanding lightning-quick wireline internet access. The Canadian fibre market remains relatively untapped, and although there's plenty of ground to cover, there's also a fierce amount of competition that's been licking their chops.

At the end of the last quarter, BCE saw its postpaid customer base grow by 135,000 with a churn rate of just 1.14%. These are solid numbers, and in these turbulent times, that's exactly what investors desire.

Foolish takeaway

In spite of the solid quarter and the FTTP wireline and 5G wireless opportunities that'll fuel growth over the next five years out, I think investors should remain patient and wait for a more attractive valuation.

While BCE stock is already down 12% from all-time highs at the time of writing, the stock is still pretty expensive at 18 times earnings when you consider the level of competition and the higher interest rates that lie ahead.

If a stable dividend is what you seek, I think you'll do much better with any one of the other Canadian telecoms. They're all capable of superior growth, and they don't have the same hoard of depreciating assets as BCE does.

Stay hungry. Stay Foolish.

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