Should TFSA Investors Preserve Their Wealth With BCE Inc. (TSX:BCE) Stock?

Description

It feels like we're already in a bear market with the recent tech wreck, the collapse in WTI prices, and the nightmare scenario playing out in Alberta's oil patch. With the Fed looking to pull the plug on the bull market, it's definitely tempting to rebalance with a bias on defensive dividend stocks to preserve what's left of your TFSA retirement fund.

I'm a strong advocate of owning defensive dividend stocks regardless of the market environment. Unless you're a whiz at forecasting macroeconomic trends, owning defensive stocks after the pain sets in is less than effective versus one who punched their ticket to out-of-favour defensive dividend stocks as the markets were "melting up."

Consider the thesis for defensive dividend stocks just a year ago. You'd have to be a complete fool (that's a lower case "f") to own defensive stocks with the bull market roaring as loud as it was. President Trump's stimulative fiscal policy was making its way into the results of companies, and as investors upped their expectations for growth, Fed chair Jerome Powell got seated on the Fed chair to temper the euphoric expectations of everybody on the Street.

Unfortunately for investors, Powell's autopilot tightening schedule could more than offset the pro-growth fiscal policy. The economy got overheated, and Powell's cooling it down by placing with an industrial-grade freezer when he should be gently fanning it with a newspaper.

With a hawk seated in the Fed chair, it's not a mystery as to why investors are running scared right now. While **BCE** (TSX:BCE)(NYSE:BCE) may seem like the default "bomb shelter" to hide out in before the seemingly imminent market implosion, investors need to remember that there's no excuse for investing in a stock just based on a macro view — a fear-driven macro view that every other investor is buying into right now.

There's a company that needs to be analyzed, and while BCE's 5.4% dividend yield may seem good enough to have most investors throwing their money at the stock, I think investors would be better served to be patient with their analysis so they can score the best defensive bang for their buck.

Valuation

The stock currently trades at a 18.35 trailing P/E, and a 2.2 P/S, both of which are marginally higher than the company's five-year historical average multiples of 17.6, and 2.1, respectively. Seems like a fair price to pay for a safe play to hide, right? The generous dividend will dampen any volatility that'll be up ahead, so why not be a buyer?

I don't think a "fair value" based on historical averages is good enough, even in this tumultuous environment. Even after the recent decline in shares, BCE still isn't cheap when you factor in the headwinds that the company will be facing over the next five years. The Canadian telecom scene is on the verge of experiencing cutthroat competition, and BCE, as the largest and lowest-growth telecom play, looks like it could be in for a real doozy relative to its more agile peers.

The company's ROEs are on the downtrend, the company's payout ratio has been on the uptrend, and the already meagre low-single-digit top-line growth numbers could realistically turn negative should regulators place hurdles in front of the telecom behemoth, as they play favourites with the up-and-coming wireless player in Freedom Mobile of **Shaw Communications** (TSX:SJR.B)(NYSE:SJR).

The bottom line

I believe BCE deserves to trade at a considerable discount to its historical average multiples due to a less-than-favourable competitive environment that lies ahead, and given the headwind of higher interest rates, I don't think BCE is worth the price of admission, even if defensive stocks become great again through the eyes of frightened investors.

Investors would be much better served investing in any one of BCE's Big Three peers as they hedge themselves from an increase in competition with a position in Shaw, the parent company of Freedom Mobile, a wireless carrier that I believe will become a significant disruptive force over the next five years.

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