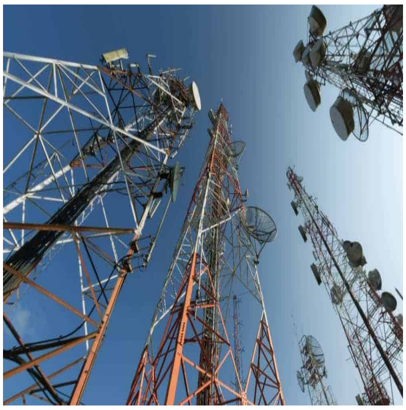

Rogers Communications Inc. (TSX:RCI.B) vs. BCE Inc. (TSX:BCE): Which Is a Better Buy?

Description

Keeping a telecom stock in your income portfolio is a good long-term strategy. Telecom operators are a great example of “cash cow” businesses, which produces recurring cash flows for their investors and usually avoid big swings in their share prices when the market volatility is high.

In Canada, we have three top telecom players having a major share of the country’s telecom market. Among them, **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) and **BCE** (TSX:BCE)(NYSE:BCE) are the two largest operators. Let’s find out which stock has the potential to offer better returns.

Rogers vs. BCE

No doubt Rogers has produced much better returns than BCE since early 2017 when both stocks diverged. Since then, Rogers shares gained 27%, outperforming massively both BCE and the benchmark S&P/TSX Composite Index.

The company has been a great investment for long-term investors in an environment when income stocks in general remained under pressure, as the central banks in North America began to hike interest rates.

Rogers’s strategy to expand aggressively in the wireless space also benefited its stock. The company, in the most recent quarter, displayed the strength of its portfolio when it reported strong, new additions of wireless and internet customers, beating analyst expectations for revenue and profit. It also provided an upbeat financial forecast for 2019.

One major difference between Rogers and BCE during the past two years was that the company focused on improving the quality of its balance sheet and has avoided hiking dividends since January 2016. The company said it was necessary to contain its debt leverage after spending heavily on wireless spectrum (the airwaves used to build cellular networks), on the national broadcast rights for the NHL, and on acquiring startup carrier Mobilicity.

Now, Rogers says its debt-to-leverage ratio (the company's adjusted net debt divided by its adjusted EBITDA) is 2.5, down from 2.7 at the end of 2017. When Rogers paused the dividend three years ago, debt leverage stood at 3.1.

BCE focused on acquisitions to propel growth in its large customer base and has continued to pay growing dividends during the past three years. Being the largest operator in the country, BCE shares are also more vulnerable to new competition from Freedom Mobile, which is increasingly threatening the established wireless companies. Due to expectations of higher dividends, BCE has also limitations to spare more cash for its future growth.

That strategy hurt the company's shares, especially in 2018, when the Bank of Canada started to hike interest rates, diminishing the appeal of its over 5% dividend yield.

Which stock is a better buy?

I find both Rogers and BCE solid long-term investments that are suitable for income investors. You can equally divide your investment between the two stocks and reap the benefits of growth and income.

That said, Rogers has a much better chance of offering you a higher total returns due to its non-committal dividend policy. The company hiked its dividend 4.5% last month for the first time in four years. Investors in BCE stock won't be able to get higher capital gains, but it is in a good position to offer more than 5% growth in its payout each year.

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2. Investing

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Date
2025/07/04
Date Created
2019/02/06
Author
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