



Is BCE Inc. (TSX:BCE) a Bad Apple?

Description

BCE ([TSX:BCE](#))([NYSE:BCE](#)) is the [dividend darling](#) that many investors have grown fond of over the last decade. Dividends, capital gains, dividend growth, the stock had it all.

More recently however, Canada's telecom scene has come under a considerable amount of pressure with up-and-comers like Freedom Mobile (owned by **Shaw Communications**) using price undercutting as an aggressive strategy with the hopes of breaking up Canada's Big Three wireless triopoly.

While there's no question that BCE, the biggest behemoth of the Big Three, has profited profoundly from the existence of a cartel-like environment in Canada's telecom scene, I believe investors should reset their expectations regarding the magnitude of revenues and earnings moving forward.

The road ahead looks rockier and bleaker than the trail that BCE has left behind. As a result, a substantial correction or prolonged period of consolidation could be in the cards over the next three years as the telecoms "keep up with the Joneses" on 5G infrastructure.

Why could BCE be a bad apple for investors?

First, BCE is the largest telecom. So naturally, it makes sense that the current telecom king will stand to be dethroned as competition picks up in conjunction with the number of expected government regulations that aim to foster increased competition and better wireless (and wireline) rates for Canadians.

We Canadians pay too much for our wireless rates, as I'm sure you're aware. So, you can bet your hat that regulators are going to do everything in their power to clamp down on the competitive advantages that the Big Three incumbents have enjoyed over the decades. With a massive and still growing subscriber base, the way I see it, BCE has the most to lose as competition picks up.

Second, interest rates are rising, which is bad news for all telecoms who will need to open up their pocketbooks that much wider to spend more on 5G infrastructure.

With Canada's inflation rate decelerating below the 2% mark, the Bank of Canada now has less pressure to raise rates over the near-term. But as Canada looks to play catch-up with the U.S. with regard to interest rates, I definitely wouldn't rule out another rate hike or two in 2019, causing a marginal increase to borrowing costs for the telecoms that are going all out in the 5G arms race.

Third, BCE's acceptance of Huawei infrastructure is a negative, plain and simple, as I pointed out in a prior piece, [criticizing Telus](#) and the potential backlash the telecom giant could face over the loss of trust from Canadian consumers.

Moreover, the risk of a nationwide Huawei ban could have substantial financial implications for all telecoms who've already begun incorporating Huawei equipment into their 5G infrastructure. Although BCE has stated publicly that a Huawei ban won't affect spending or delays to its 5G infrastructure rollout, I remain very skeptical.

Fourth, BCE looks pretty bloated compared to its smaller peers. There are a lot of old assets and infrastructure on the books, so it wouldn't surprise me if further write-downs came to be at some point over the next five years. Specifically, I'm talking about the landline and linear video service businesses, which will likely continue to depreciate over time.

So, is a BCE a bad apple?

I think it is. The way I see it, the pie is BCE's to lose. In addition, I find the 18.7 times trailing earnings multiple to be absurdly expensive given the tempered growth expectations and the severe headwinds that lie ahead. If you're one to short stocks, BCE may be the horse to bet against.

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