



three to five years.

The below-average growth will lead to fairly low returns — in my opinion, *unacceptable returns*. Specifically, I'm imagining a scenario in which BCE stock will experience a reversion to the mean. If so, we could see the stock fall quickly to the \$53 level over the next 12 months — a drawdown of about 10.8%.

This is twice the yield that BCE offers right now. That is, shareholders can sell now to get two years' worth of dividends, protect their capital, and get back into the slow-growing stock (if they wish) at a cheaper price.

Telus doesn't look as bad from a valuation standpoint. As of writing, it trades at about \$47.80 per share, a pretty fair P/E of about 16.5, while the large telecom is estimated to increase its earnings per share by about 7.5% per year over the next three to five years.

That will lead to reasonable returns of about 9-11% per year over the next three to five years under a base-case scenario.

How are the telecoms' balance sheets and dividend safety?

It's pretty normal for telecoms to have a lot of debt. BCE and Telus have debt-to-cap ratios of 44% and 54%, respectively, but both have been awarded an investment-grade S&P credit rating of BBB+.

At the end of 2018, BCE had cash and cash equivalents of \$425 million and total liabilities of \$36.5 billion, of which nearly \$19.8 billion was long-term debt.

For the year, the telecom leader generated more than \$7.3 billion of operating cash flow, of which roughly 54% was used for capital spending. The company then used about 83% of the \$3.4 billion free cash flow to pay out dividends. After that, \$585 million of cash still remained. I suppose shareholders find solace in knowing that BCE's dividend looks secure.

At the end of 2018, Telus had cash and cash equivalents of \$414 million and total liabilities of \$22.7 billion, of which \$13.2 billion was long-term debt.

For the year, the Telus generated more than \$4 billion of operating cash flow, of which roughly 71% was used for capital spending. The company then used about 96% of the less than \$1.2 billion free cash flow to pay out dividends. After that, \$43 million of cash still remained.

From a free cash flow perspective, Telus's dividend is less safe than BCE's.

Investor takeaway

BCE's dividend seems safe, but shareholders should think hard if it's necessary to own it. Right now, the risk/reward ratio just isn't on investors' side because the stock is trading at a high multiple.

With below-average growth, [BCE](#) is set to underperform over the next 12-24 months. In fact, it could deliver negative returns if investors aren't careful.

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