This High-Yield Dividend Stock Is the Best in its Group

Description

Chasing high yields often lands you in trouble. When a stock offers a return that's higher than the market average, it's generally a sign that investors are seeking a discount to own that name. But in some cases, a high yield could also be the result of temporary factors that could depress the stock price and push its yield higher.

That was exactly my opinion about **BCE** (TSX:BCE)(NYSE:BCE), Canada's largest telecom operator and one of the best dividend stocks to buy, when its yield swelled last year, offering close to 7% at one point on concerns that rising bond yields will diminish the value of this top dividend payer.

But if you look at the price chart now, its stock has largely recovered those losses, staging a strong rebound during the past six months, rising more than 18%. That great momentum came amid changing macro environment where the Bank of Canada has moved to the sidelines, while BCE continues to benefit from surging demand for its wireless and broadband services.

The latest evidence of this strength came in February when BCE announced its fourth-quarter earnings report, showing strong additions in its wireless business. During the quarter, BCE's adjusted profit rose 8.5% to $0.89 per share. Analysts, on average, estimated BCE would earn $0.87 per share.

The company's flagship wireless division added 121,780 net new subscribers in the fourth quarter. BCE also announced its annual dividend will rise 5% to $3.17 per share, effective on April 19.

Is BCE stock a buy now?

Trading at $60.21 and with an annual dividend yield of 5.32%, BCE stock is trading close to analysts' 12-month price target and it looks fairly valued. But I would definitely buy if its stock goes through a pullback and the yield once again come close to 6%.

There are a couple of risks that could provide this opportunity. One is a cybersecurity review of China-based **Huawei Technologies** — a major vendor for BCE. In a note this year, **CIBC** estimated an outright ban on Huawei equipment could result in a $1 billion "remove-and-replace" bill for BCE and **Telus**.

Another risk that could hurt BCE stock in the short run is if the Bank of Canada again starts raising interest rates and pushing the bond yields higher. But if you're a long-term investor, BCE's current dividend yield is still attractive when compared to other peers.

Bottom line

BCE stock's strong rally this year suggests that investors have missed an opportunity to lock in a very attractive dividend yield last year, but that doesn't mean this strong player doesn't have long-term appeal. The company's payout has more than doubled in the past decade. I don't see any reason that this slow and gradual value creation for BCE investors will stop any time soon.

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