



BCE Inc. (TSX:BCE) Stock Tops \$60: How High Could it Go?

Description

It's amazing how quickly sentiment can change in the equity market.

Last spring, investors couldn't get out of **BCE** ([TSX:BCE](#))([NYSE:BCE](#)) and a number of other go-to dividend stocks fast enough amid fears that rising interest rates would put a pinch on cash flow available for [distributions](#) and trigger a massive sell-off as funds shifted into alternative yield options.

BCE slipped from above \$62 per share in December 2017 to below \$51 per share in early October last year. That's a big move in a short period of time for a market leader with a wide moat and a rock-solid, high-yield dividend.

Contrarian types who had the foresight to buy at the December low are up nearly 20%, and more gains could be on the way.

What happened?

The Bank of Canada (BoC) and the U.S. Federal Reserve put the brakes on their rate-hike programs citing concerns over global growth. Originally, pundits expected both the BoC and the Fed to raise rates three more times in 2019. Today, additional rate hikes are viewed as highly unlikely this year and some analysts are even suggesting the next moves could be reductions.

The ongoing trade war between the United States and China is one reason for the mood shift. Chinese growth is slowing down and that risks putting its largest trade partner, the United States, on the path to a recession. Canada is feeling the effects, both indirectly due to its reliance on trade with the U.S., and directly as a result of increased political tensions with China connected to the arrest of a prominent Chinese telecom executive.

Brexit uncertainty in Europe is also adding additional fuel to the fire and that drama is set to continue through most of 2019. The U.K. and the E.U. just agreed to delay the deadline to the end of October this year. European banks are already struggling and any new economic shocks could trigger another financial crisis in the region.

As a result, investors have come to the realization that the sell-off in BCE's stock might have gone too far. The more likely it is that rates are going to stay at current levels, or even dip, the higher the demand should be for the stock as yield seekers return to collect the attractive distributions.

How high could BCE go?

At the time of writing, BCE trades for \$60.5 per share and provides a dividend [yield](#) of about 5.25%. The company is targeting free cash flow growth of 7-10% this year, so investors should see a dividend hike in 2020 to at least match the 5% increase the board approved for this year.

It wouldn't be a surprise to see the stock hit \$65 in the coming months, and any indication that interest rates could be cut next year or held steady through 2021 could push the share price toward the \$70 mark by the end of next year.

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