Is BCE Inc. (TSX:BCE) Still a Top TFSA Dividend Stock?

Description

BCE (TSX:BCE)(NYSE:BCE) is a staple for many income-savvy investors. Most Canadian investors have owned the name at one point or another because it's typically a major holding in many market-weighted Canadian mutual funds and ETFs.

The sheer size of the telecom behemoth and the bountiful 5.25% are the two main selling points of the stock. BCE's big blue-chip market cap is associated with safety while the fat upfront yield is the "main attraction."

Since the depths of the Great Recession, BCE has been on a heck of a tear, but more recently shares have ground to a halt. With the telecom scene about to experience a significant tectonic shift thanks to the rise of 5G and the entrance of **Shaw Communications**' Freedom Mobile into the wireless scene, I think the many Canadians who've invested in BCE ought to have another look at their investment theses.

Indeed, the industry landscape has changed, and for BCE, I believe it's for the worst.

The capital requirements for rolling out Fibre-to-home and building top-tier 5G infrastructure are ridiculously high. And with Freedom Mobile looking to undercut the incumbent telecoms to gain share in what's otherwise been a triopoly, BCE's subscriber base looks like it could be exposed despite the major investments made in next-gen telecom tech.

Let's face it: investing heavily in Fibre wireline or 5G wireless isn't going to buy BCE an edge over the competition. Fibre and 5G are the essentials for the new age, and every serious telecom is going to be throwing money at these areas to bolster their standing within selected markets.

With the next-gen telecom tech, Canada's Big Three (or Big Four with Shaw) will be playing a never-ending game of "Keeping up with the Jones" to maintain network superiority.

As it stands today, BCE is the leader in Canada's telecom scene. And the way I see it, it's BCE's ball to drop. In a prior piece, I highlighted that BCE was quite bloated and would struggle to maintain a similar magnitude of growth relative to its smaller, more agile peers, most notably Freedom Mobile. Add regulatory hurdles into the equation (regulators want more competition), and I see BCE as a sub-par investment over the next five years — at least at these valuations.

At the time of writing, the stock trades at 19.53 times trailing earnings, which I find to be quite absurd given the headwinds which I believe warrant a reset to return expectations.

Why is the stock so expensive?

As one of the top market darlings for over a decade, many investors and mutual funds have fallen in love with the stock and can't seem to "break up" with the long-time favourite despite the more challenging conditions ahead that weren't around in the past.

I really can't blame folks for not wanting to give up on their BCE shares, though. That dividend yield is juicy, and it's not going anywhere but up. Many retirees could care less about capital gains as long as they get their fat income payments. And while BCE's dividend is as big and reliable as they come, over five years' time, I think the dividend payments are all investors will end up with.

I see no way for BCE to widen the gap between its competitors, so if you're about maximizing your total returns and not just the dividend, I'd give BCE a rain check until the premium price tag has a chance to fall back to Earth.

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