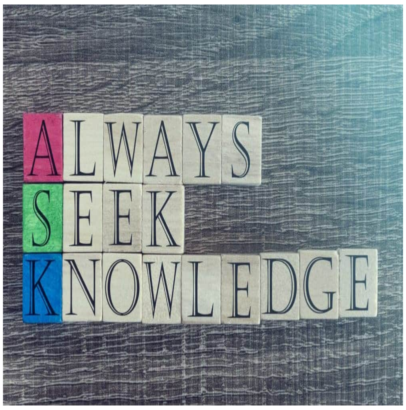

Retirees: Why You Shouldn't Bother With BCE (TSX:BCE) Common Shares

Description

With global interest rates at all-time lows, investors are flooding into utility and telecommunication names such as **BCE** (TSX:BCE)(NYSE:BCE) in the search for income. And with a market cap of $53.6 billion, and yield north of 5%, BCE is a good choice as any owing to its size and stability. However, given that the company has very little actual growth prospects going forward, I would suggest that BCE's yield-hungry investors look towards the preferred shares instead of the common shares.

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No growth opportunities

BCE's revenue guidance for 2019 calls growth of only 1-3% compared to last year, while adjusted EBITDA is expected to come at 5-7%. On top of the sluggish outlook, last quarter also saw the telecom giant report slowdowns across some key segments, which could pose issues in the near term. For example, net additions to wireless post-paid subscribers decreased 27% year over year, while overall wireless net additions fell 14% across the same period. And while post-paid churn was flat compared to 2018, BCE's average revenue per user has also began to tick downwards from two quarters prior.

Furthermore, the coveted media segment continues to face strong competition from streaming services, as evident by a decline in advertising revenues of 1.3%. In other words, based on the forward outlook and the published numbers, along with lengthening smartphone upgrade cycles, all signs are pointing to a slowdown in forward growth prospects for BCE.

Dividend is safe for now

BCE's dividend looks to be safe for the time being. However, even with a free cash flow payout ratio in the manageable 65-75% range, I anticipate BCE's payout to place pressure on the company's budget, given its 5G ramp up. Furthermore, BCE is also sitting on net debt of $28.8 billion, of which $5.5 billion is due within a year, which will, of course, require significant cash outlay to service.

Preferred shares are a better deal

Therefore, with soft growth for the coming fiscal year (and beyond), an investment in BCE is an investment strictly for the dividend. And if you're going to invest in the company purely for income purposes, why not just invest in the preferred shares? Currently, most of BCE's fixed-rate preferred shares are trading well below their par value thanks to their embedded conversion features into floating rate payers.

Naturally, with an interest rate outlook that looks to be dovish, the market has been selling these shares off in anticipation of their conversion. However, preferred shares like the Series C (AKA Series AC), are only set to convert in 2023 and currently pay north of 6.5% thanks to the sell off. Moreover, at their current levels, any sort of upward revision to the interest rate outlook from the market will reprice these names higher. Thus, from an income perspective, it would make sense to eschew the common shares in favour of a higher position in the capital structure and locking in a higher yield for at least the next four years.

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