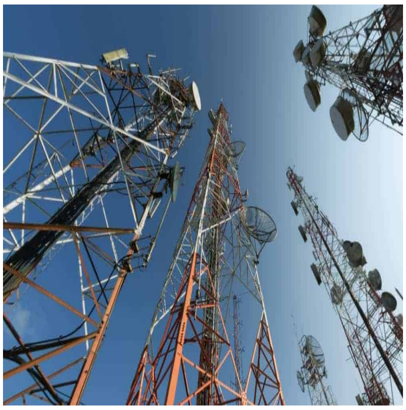

Should BCE (TSX:BCE) Stock Be in Your Defensive Portfolio?

Description

What makes a stock a perfect candidate for any defensive portfolio? This question is becoming more relevant, as the risks to economic growth escalate globally, and cautious investors look for assets that perform better when the economy gets hit.

In my opinion, companies that command a durable competitive advantage, growing free cash flows, and sticky services are the ones that fit the bill.

If you're looking to buy such stocks in the second half of 2019, then Canada's largest telecom operator, **BCE** (TSX:BCE)(NYSE:BCE), is a name to consider.

BCE has a strong, dominant position in Canada's highly regulated telecom market, where three big players make most of the revenues. BCE, through its diversified service offerings, including wireless, home internet, and media operations, has shown sustained growth in its subscribers.

BCE reported strong financial and subscriber growth for the second quarter, despite the tough competition it's facing from its smaller rivals. Montreal-based BCE added 46,000 new prepaid wireless customers in the three months ended June 30, a swing from a loss of 8,000 in the same period last year, helped by its discount wireless brand **Lucky Mobile**.

In that period, BCE also added 103,000 new wireless subscribers on contracts, which bring in more revenue than other plans, beating analyst expectations for about 93,000.

Profit at BCE rose 8.2% to $817 million. On an adjusted basis, it reported earnings a share of $0.94, beating the consensus forecast of $0.90.

Safety in BCE stock

In general, telecom utilities are great investments for defensive investors. These companies aren't too volatile when markets are going through an uncertain period. The reason is that their services are among the last that people would consider cutting in a recession. And that stickiness provides stability to their cash flows, making them perfect holdings in a defensive portfolio.

That's the reason that BCE stock has outperformed the S&P/TSX Composite Index during the past six months — a period when worries about recession escalated, and investors began to move their funds to safer assets.

BCE has long maintained a policy of increasing its dividend by 5% annually. As per the company's dividend policy, the company distributes between 65% and 75% of its free cash flow in payouts. In line with this policy, BCE has increased its annual payout by more than 100% since the fourth quarter of 2008.

The company now pays $0.7925 a share quarterly payout, which gives investors a 5.1% annual yield.

Bottom line

Trading at $61 at the time of writing, BCE stock is close to the 52-week high after recovering from a weak phase in 2018. Despite this strength, I still see this stock offering a good value with its 5% dividend yield. That return is good enough to ride through a tough economic time if it's coming soon.

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1. Dividend Stocks
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