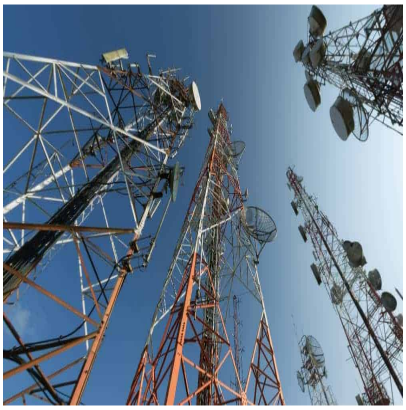

Why BCE Stock Rose 5.6% in August

Description

Shares of Canada's leading telecom operator **BCE** (TSX:BCE)(NYSE:BCE) rose 5.6% in August 2019. The company announced its second quarter results at the start of last month, and reported operating revenue of $5.9 billion, a 2.5% year-over-year increase.

Adjusted EBITDA rose 6.8% to $2.6 billion in the second quarter, indicating an EBITDA margin of 43.8%. Adjusted earnings per share (EPS) rose 9.3% to $0.94. Analysts estimated BCE would post earnings of $0.90 in the second quarter.

The company added 185,667 total wireless, retail internet, and IPTV customers in the second quarter, a 25.5% year-over-year increase. BCE was buoyed by the performance of its wireless segment, which experienced its highest total post-paid and pre-paid net customer additions since 2001. Net additions rose 30.6% to 149,478.

Company CEO George Cope stated, "Bell's strategy to bring the fastest broadband networks and the latest service innovations to Canadians in every region continued to drive strong operating and financial performance across our business in Q2. We significantly increased net new subscribers to our wireless, retail Internet and IPTV services, achieved our 4th consecutive quarter of growth in business markets, and again led the Canadian media industry in audience expansion and programming innovation."

A look at BCE's growth and valuation

BCE shares have gained 17.6% year-to-date. The stock is currently trading at $63.44, which is 25% above it's 52-week low and close to its 52-week high. So, is the stock currently expensive for investors?

Analysts expect BCE sales to rise by 2.2% to $23.97 billion in 2019, and 2.2% to $24.51 billion in 2020. Its earnings per share are estimated to rise by 0.9% this year, 4.8% next year and at an annual rate of 3.7% in each of the next five years. Comparatively, BCE stock is trading at a forward P/E multiple of 17.1.

This indicates that the stock is overvalued even after accounting for its dividend yield of 5%. BCE should be trading at a forward P/E of around 10, given its growth estimates. So, the stock is overvalued by 40%.

BCE is a good pick for defensive investors

As we can see, BCE is trading at a premium and will be a key stock for a defensive portfolio. BCE's leadership in Canada's telecom market will stand it in good stead. Further, telecom utilities are great investments for defensive investors.

Analysts have a 12-month average target price of $61.65 for BCE, which is 3% below its current price. Investors can hold the stock for its dividend yield rather than capital appreciation. BCE has increased its dividend yield by 5% annually and distributes around 70% of free cash flow in dividend payouts. BCE has an annual dividend of $3.1 per share.

The verdict

BCE is also looking to grow inorganically via acquisitions. In July 2019, BCE announced the acquisition of Quebec television network V and Noovo.ca, a video-on-demand platform. These acquisitions will provide a broader choice of news and entertainment for the Quebec audience as well as opportunities for content creators and advertisers.

BCE is a mature company. It doesn't generate multifold returns like **Shopify** or **Lightspeed**. But this means the stock will also be far less volatile in a downturn. The transition to 5G is just around the corner and will be a key driver for sales.

For now, investors can look towards BCE for stable returns and a solid dividend.

CATEGORY

1. Investing
2. Tech Stocks

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araghunath