BCE (TSX:BCE): Is This the Best Time to Buy This Dividend Stock?

Description

After hitting a five-year high in September, **BCE** (TSX:BCE)(NYSE:BCE) stock has been facing a strong resistance to move to the next level. That tug of war between bulls and bears is raising a question in investors' minds: Is this a good time to buy this top dividend stock?

BCE stock gained more than 16% this year — a commendable performance from a matured telecom operator, which distributes much of its income in dividends. Trading at $62.69, the stock is almost at its 12-month consensus price target by analysts, suggesting that there is little room for further upside.

That view has some rationale. Canada's top telecom operators are under pressure since the introduction of unlimited data plans — and without overage charges, they could face significant financial pain.

Earlier this year, Canada's largest telecom operators announced new plans, which would offer customers unlimited data beginning at $75 per month. Specifically, customers would be able to access 10 GB of data at full speed, and once they passed that plateau, they would be given additional access at lowered speeds instead of having to pay costly overage fees.

Rogers Communications, for example, cut its full-year revenue guidance and adjusted EBITDA forecasts in October, in part blaming the rapid adoption of the unlimited plans. Rogers is now expecting either a 1% increase or a 1% decrease in revenue, down from the 3-5% revenue growth it had forecast previously.

Unlimited data pain

BCE stock could feel the similar pain, and it might see its revenue getting the hit in 2020. So far, it has shown no sign of revenue slowdown from the consumer shift to unlimited data plans, as it benefits from strong wireless demand.

In October, BCE reported third-quarter adjusted earnings that met analyst expectations, as revenue climbed more than expected on increased wireless subscribers. Third-quarter revenue rose 1.8% compared with a year ago to $5.98 billion, beating a prediction of $5.97 billion, as BCE added 204,000 wireless subscribers, a 15% jump in the number it added a year ago.

“We clearly had a very, very strong third quarter from a wireless perspective,” BCE president and CEO George Cope said on a conference call. “Our wireless network speed leadership is enabling us to take market share and not become a price shop.”

If this earnings momentum continues, I don’t see a reason why investors should exit this top income stock in Canada. Another reason to remain faithful to BCE stock is that even after a strong rally this year, its yield is still quite attractive at about 5%. Investors will be getting more than 3% premium when buying shares now when compared with the 10-year government bond, for example.

BCE pays $0.7926 a share quarterly dividend, which has been growing about 5% per year during the past decade.

Bottom line

Is it the best time to buy this top dividend stock? Probably not after a strong rally in 2019. BCE stock is trading above analysts’ 12-month price target, and it looks fairly valued. But I would definitely buy if this stock goes through a pullback and the yield once again approaches 6%.

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