TFSA Users: Forgo Stability — Avoid This 1 Stock!

Description

BCE (TSX:BCE)(NYSE:BCE), also known as Bell, is a wireless and internet service provider that offers wireless, broadband, television, and landline phone services in Canada. The company also has a media segment that oversees its television, radio, and digital media assets.

In fiscal 2019, the company's revenues consisted of wireline at 51%, wireless at 37%, and media at 12%.

The company is behind the eponymously named Bell Let's Talk, which supports mental health initiatives in Canada. The company has donated $101 million since it started with over 1,000 partnered organizations and over three million Canadians helped.

Bell reports a market capitalization of $54 billion with a 52-week high of $65.45 and a 52-week low of $53.05.

Intrinsic price

Based on my calculations, using a comparable company analysis valuation model, I determined that Bell has an intrinsic value of $60.58 per share.

The price at the time of writing is $60.16, which is roughly in line with the intrinsic value. Thus, TFSA investors looking to buy shares of Bell should avoid it for now.

Bell has an enterprise value of $78.8 billion, which represents the theoretical price a buyer would pay for all Bell outstanding shares plus its debt. Investors will be pleased to know that the enterprise value is increasing.

Highlights

For the third quarter of 2019, Bell reported strong results with operating revenues of $6 billion, up from

$5.9 billion in 2018 (+1.8%) driven by sales in its product division, which saw increased sales of higher-value smartphones and wireless rate plans.

Given increased operating efficiencies, Bell reported strong net earnings of $922 million for the quarter, up from $867 million in Q3 2018 (+6.3%). This is driven by strong growth in adjusted EBITDA, higher other income, and lower SG&A, offset by increased depreciation expense, higher income taxes, and higher finance costs.

Bell reports cash flows from operating activities of $2.3 billion, up from $2 billion the prior year (+10.5%). This is largely driven by adjusted EBITDA growth and lower income taxes paid, offset by IFRS16 adjustments that resulted in increased interest paid.

Capital-expenditure spending is flat year over year at $1 billion. This is not ideal, as it suggests Bell's growth is stagnating. That said, the improvement in net income (+6.3%), which outpaces the growth in revenues of 1.8%, suggests the Bell is finding operational efficiencies.

My only concern with this is the sustainability, as you can only trim so much before it adversely affects revenues.

Bell is focused on improving its infrastructure with investments to bolster the connection of fibre internet and TV services, the deployment of small sells to increase signal quality, coverage, and speeds, as well as preparations for the launch of 5G service.

Bell is a dividend-paying entity with a current dividend yield of 5.27%, which is achieved with quarterly dividend payments of $0.7925 per share.

Summary

Investors looking to buy shares of a telecommunications company should avoid Bell for now. Despite increased revenues, increased net income, and a solid dividend, the shares trade at $60.58 compared to its intrinsic value of $60.16.

Thus, I believe that now is not the time to buy shares of Bell, because it is trading close to its intrinsic value; however, I recommend interested investors follow the stock and wait for an opportunity to buy it at less than intrinsic value.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. Editor's Choice

Date
2025/06/29
Date Created
2020/01/13
Author
cliu