TFSA Investors: Time to Buy BCE (TSX:BCE) Stock Yielding 6%?

Description

For investors who use their Tax-Free Savings Accounts (TFSAs) to buy stocks, this is probably the best time to look for bargains. The markets have gone through a major correction, and there are many stocks that are selling cheap.

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In the big universe of dividend stocks, TFSA investors should focus on the companies that command durable competitive advantages, growing free cash flows, and sticky services.

If you're looking to buy such stocks in May, I strongly recommend you consider Canada's largest telecom operator, **BCE** (TSX:BCE)(NYSE:BCE). Here are three top reasons that make BCE stock a great addition to your TFSA.

Market dominance

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 has made the right bets in the past five years, positioning the company to produce better returns for shareholders.

Among the few measures that will fuel future growth is its investment worth billions of dollars on its fibre-optic network to support faster internet speeds and prepare the utility to offer 5G: the next generation of wireless network technology.

High-yield, growing dividend

BCE has long maintained a policy of increasing its dividend by 5% annually and has used a series of acquisitions to partly fuel the cash flow growth necessary to keep boosting the payout. Its acquisition of Manitoba Telecom Services in 2017 was one such move that began to improve both top- and bottom-line profitability.

Is that dividend safety under threat after the economic slowdown caused by the COVID-19 pandemic? I don't think so. The global health crisis has fuelled demand for connectivity, as millions of people are working from home.

In my view, that trend isn't temporary. Even after the virus is contained, there will be millions of jobs that will permanently move to remote locations. The world's largest companies are spending billions of dollars to get their infrastructure ready for that change. Companies like BCE are net beneficiaries of this trend, as they are the telecom infrastructure providers.

These factors make BCE stock an attractive option for TFSA investors to consider, despite its recent pullback, especially when its yield is touching 6%.

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 payout is now at $0.8325 per share, paid quarterly.

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Great defensive play

In general, telecom utilities are great investments for defensive investors, such as your TFSA . 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 TFSA stocks.

If you analyze BCE's stock performance this year, the stock is down about 7%, compared with a 15% plunge in the S&P/TSX Composite Index. BCE is a slow-growing investment paying steadily growing dividends while preserving your capital.

Bottom line

Trading at $55.88 at the time of writing, BCE stock has become more attractive for the buy-and-hold TFSA investors. The current weakness creates a good opportunity to buy this stock cheap and earn growing dividends.

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