TFSA Investors: Should You Buy BCE (TSX:BCE) Stock for 6% Yield?

Description

The recent weakness in markets has made **BCE** (TSX:BCE)(NYSE:BCE) more attractive for investors who want above-average returns for their long-term savings accounts, such as TFSA.

Canada's largest telecom operator now yields more than 6%, offering one of the best dividend yields one can get from a quality stock in an environment when banks are offering close to zilch. If you're still confused about buying the BCE stock, here are two points to help make you a decision.

A recession-proof stock

It's hard to emerge completely unscathed if you're an equity investor in the type of major downturn that's taking place after the COVID-19 pandemic. But you can minimize your risk by diversifying your portfolio and adding low-risk dividend-paying stocks to your portfolio.

One of the biggest reasons to buy telecom utilities, such as BCE, is that they offer a shelter to income investors when the economy slips into a recession. People are highly unlikely to cut their internet and wireless lines, even when they lose their jobs.

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 chief executive officer Mirko Bibic, in a recent earnings call to discuss the company's first-quarter results, said that the company will keep laying fibre-optic cables to customers' homes, expanding its fifth-generation wireless networks and providing more high-speed internet service to rural parts of the country, even as it faces short-term financial pressures.

"This is not a time to pull back capital spending on critical network infrastructure," Mr. Bibic said. "These are healthy investments for the long-term benefit of our company, our customers and our economy."

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.

I don't think BCE's dividend safety is under threat after the economic slowdown caused by the pandemic. The company will face a temporary slowdown in sales, but it will recover quickly once the virus is contained.

During the first quarter that ended on March 31, BCE revenue rose 5.4% to $3.69 billion from a year ago, as it added more wireless customers.

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.

If you analyze BCE's stock performance this year, the stock is down about 8% compared with a 12% 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 $55.09 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 steady income.

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