Does BCE Belong in Your Low-Risk Stock Portfolio?

Description

All three big-league Canadian telecom companies have now reported earnings for the year's second quarter. This means that the time has come to sift through the data for one of the country's biggest telcos. Is it a strong play for the long term? And is it a good idea to hold more than one of them in a stock portfolio? Let's find out.

More pain ahead for Canadian telcos?

BCE (TSX:BCE)(NYSE:BCE) is the most exposed to media of the three names here. While **Rogers Communications** obviously has its own monopoly in the sports media space, BCE is highly exposed to other areas of media, such as content streaming. In essence, BCE, via Bell Media, is Canada's answer to **Netflix**. While there is of course more to BCE than the famous NASDAQ tech stock, the comparison holds water – at least to a certain degree.

In summary, while BCE and Rogers are part of the same telecoms sector, their other business ventures are quite different. While this might not quite justify holding both in a single portfolio, however, as their similarities would increase the risk of overexposure to shared business areas. Risk factors across both companies include the loss of revenues from roaming and advertising fees, both of which are likely to be ongoing.

Impairment charges were a big deal for BCE in the second quarter. So much so that the company saw a 64% profit plunge. This was weighted in part by higher expenses originating in its Bell Media segment.

Earnings estimates were also foiled – a big no-no even in the best of markets. Analysts had pegged earnings per share at 64 cents, a big step down from last year's 85 cents. The reality was a much lower 26 cents. Adjusted earnings told a slightly more cheerful story, with earnings of 63 cents per share. Even so, this represents a 32% dive year over year. It also missed the consensus estimate of 69 cents.

Go long on “recovery” stocks

CFO Glen LeBlanc pinpointed the issues: “As witnessed by other broadcasters worldwide, we experienced a steep decline in advertising demand this quarter, due to the impact of COVID on ad spending across all platforms as commercial activity was significantly curtailed, major sports leagues suspended and other live events and TV productions canceled because of this crisis.”

Would-be shareholders, and those adding to positions, will have to gauge their level of bullishness. While the pandemic is likely to continue weighing on income, BCE investors should consider the possibility that the worst is behind the company. CEO Mirko Bibic stated: “We believe that BCE’s Q2 consolidated results represent a low water mark.”

Investors should be wary, though. BCE is the one telecom business most exposed to revenue losses in the media industry. The danger is comparable to Rogers’ media exposure, given the latter’s significant sports media operations.

This exposure is likely to continue eating into profits as the pandemic grinds on. However, as with the majority of Canadian stocks, vaccine breakthroughs are liable to cause rallies in the near-term.

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Date
2025/09/30
Date Created
2020/08/10
Author
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