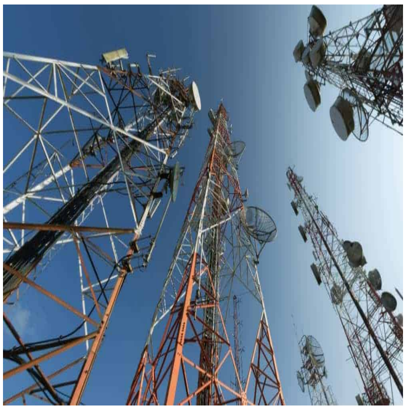

Is BCE a Good Stock to Buy After Earnings?

Description

Communications and media giant **BCE** (TSX:BCE)(NYSE:BCE) was not alone in turning in a big loss during 2020's second quarter. However, let's find out why BCE different from its closest competitors in the telecom space.

A top stock to buy for a recovery

Canadian telcos are very strongly delineated. Each one has its own distinct strength (or weakness, given this year's ornery marketplace). In basic terms, the three big telecom names in Canada split the wireless communications market fairly equally three ways. When one gets around to their other business operations, things get a little more interesting.

This time last year, the battle for telecom dominance was in full swing. BCE was being trumpeted as the fastest ISP on the market. Meanwhile, the content streaming wars were heating up. It seems a very different world from today's sorry-looking market. This year, all three major telcos saw dire Q2s. Meanwhile, the content-streaming market has been flooded by stay-at-home consumers.

Let's focus on BCE's media segment for a moment. On the one hand, the fizzling content streaming market makes BCE look like something of a weaker option. Gone are the heady days of streaming momentum. Advertising revenue has stalled across the board—so much so that **Netflix** has been replaced by **Microsoft** turning the FAANGs into the FAAMGs.

Revenue from roaming charges has also cratered, as people stay home amid the ongoing public health crisis. This has led to a correction in telecom stocks. But there are at least two good things that come about from a correction. On the one hand, investors get to see what a fairly valued business looks like. On the other, a correction hits the reset button, and the race for upside can begin afresh.

Keep calm and go long

How much upside will BCE experience? There are a few ways to gauge this. Investors may look at prepandemic performance for an indication of data in a full recovery. There is a flaw in this kind of evaluation, though: the world isn't going to return immediately to a pre-2020 state. Certain elements of the pandemic are likely to linger, most notably consumer sentiment.

Another is to consider BCE' story and how it fits into a recovery narrative. Investors buying for its 6% dividend yield should consider BCE a fairly stable choice, given its strong wireless offerings and Bell Media market share. A recovery in consumer sentiment should see advertising revenues pick up. Roaming charges should also recover as tourism springs back.

However, investors should also consider BCE's valuation, earnings outlook, and total returns potential. Despite shares selling at half their fair value, BCE's multiples indicate a stock still trading above the sector average. Annual earnings growth is estimated at around 13%, which is not significantly high. Its balance sheet is also marred by a high debt-to-equity ratio of 108%.

But a recovering market could see BCE's fortunes pick up in several key areas. Investors buying stocks for a recovery should therefore factor in strengthening income when looking at names like BCE.

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