BCE (TSX:BCE): A 6% Yield and a Great Place to Hide

Description

I've never been a huge fan of **BCE** (TSX:BCE)(NYSE:BCE) stock, given its growth problem will not be easily solved. The telecom behemoth sports a $50 billion market cap and is a stalwart that may not be in the best position, as competition in the Canadian telecom scene looks to pick up over the next decade. The days of the Big Three dominance could be drawing to a close over the years ahead. Although BCE isn't capable of posting huge capital gains alongside its bountiful dividend, I think the name is well worth owning given the type of market environment we're in right now.

Under normalized conditions, BCE isn't my favourite stock, especially for young investors, to own. But in an era of rock-bottom interest rates, with a U.S. Federal Reserve that's not even thinking about thinking about hiking interest rates for the next two to three years, I'd say the opportunity costs of holding a bond proxy stock like BCE are the lowest they've ever been. With pandemic-driven volatility thrown into the equation, BCE suddenly looks like a staple for any portfolio, as it was coming out of the Great Financial Crisis of 2007-08.

BCE: From stalwart dud to dividend stud

Times change, and your views on certain stocks should change relative to the stage that's been set. I've been slamming BCE for many years, but now, I'm ready to change my tune, as Warren Buffett has with gold and gold miners through his recent decision to scoop up shares of **Barrick Gold**.

Warren Buffett has not been a fan of gold in the past. But with near-zero interest rates that could be on the cusp of going into negative, the opportunity costs of holding low and the benefits of holding onto the "unproductive" asset now make a tonne of sense.

BCE is a premier bond proxy that can help build a rock-solid foundation for any portfolio. The dividend, which yields 6%, is more than safe and is in a position to continue growing at a decent mid-single-digit rate out of this pandemic. Shares of the name have taken a modest hit amid the COVID-19 crisis, with BCE stock now down 15% from its pre-pandemic peak.

Recovering from the COVID-19 hit

The media division has been a prominent sore spot for BCE. Still, compared to most other dividend payers out there, BCE has a ridiculously resilient operating cash flow stream that will allow it to keep its dividend intact while retaining its dominant position atop the Big Three.

In the last quarter, revenues dipped 9% year over year, as wireless revenues plunged 11% year over year due to the COVID-19 impact. Once this pandemic ends, BCE will be in a spot to re-gain significant ground. In the meantime, the stock remains a terrific place to hide because of its vast dividend that'll dampen any year-ahead downside. Given the relative resilience, BCE stock is far too cheap, leading me to believe that shares have a wide margin of safety at $55 and change.

Foolish takeaway on BCE

While BCE certainly won't make you rich on a vaccine breakthrough, it will help you hold your own in the face of further outbreaks. Even if BCE remains stuck in limbo for longer, the dividend is more than enough reason to hang on, as it blows fixed-income securities right out of the water in this kind of near-zero interest rate environment.

CATEGORY

1. Coronavirus
2. Dividend Stocks
3. Investing
4. Stocks for Beginners
5. Tech Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

Category

1. Coronavirus
2. Dividend Stocks
3. Investing

4. Stocks for Beginners
5. Tech Stocks

Date
2025/08/24
Date Created
2020/10/02
Author
joefrenette