BCE (TSX:BCE): A Cheap Dividend Heavyweight in a Frothy Market

Description

With a potential Santa Claus rally looming, many investors are likely looking to put their excess cash hoards to work before the price of admission into many of the stocks on their radar has a chance to go up further.

Stock valuations have been steadily climbing for quite some time now. With traditional valuation metrics such as the price-to-earnings (P/E) ratio at the higher end of the historical range for many names, it certainly seems like we're overdue for a correction.

Given the magnitude of disruption caused by the coronavirus crisis, however, it's unwise to pay too much merit to such swollen ratios, as many firms will be due for a considerable amount of earnings (and sales) expansion in 2021, as COVID headwinds fade.

Stocks look expensive here… or do they?

Indeed, stocks have been that much more challenging to evaluate this year.

While the markets seem expensive on the surface, they may not be as expensive as they seem, as I noted in a prior piece, when stocks were continuing to climb their way out of the ominous depths of March.

Given the type of market environment we find ourselves in and the potential K-shaped recovery that could be in the cards on the other side of this horrific second wave of COVID cases, this current market rally may have legs that could last well into next year.

That said, not all stocks will feel the full force of the next leg higher. Some of the biggest 2020 winners may sit the next rally on the sidelines or plunge, as the broader markets hold steady.

Some pundits, including the likes of **JPMorgan** top boss Jamie Dimon, see froth in isolated areas of this market. While Dimon didn't go into detail about the potential bubbles in the market in his sitdown to discuss meagre returns potential with U.S. Treasuries and how he wouldn't touch them with a 10-foot pole, one has to think that the man is referring to certain cloud and electric vehicle (EV) stocks, many of which have doubled multiple times over in the past few months.

While continued enthusiasm and the increased appetite for speculation could continue to propel such white-hot names to even frothier heights (many speculators view such stocks are the only game in town given how unrewarding risk-free assets have become this year), I would encourage stock pickers to look to the cheaper, more defensive names in the market that have a margin of safety and bounce back potential in a 2021 economic reopening.

A cheap defensive with a lofty 6% yield and compelling reopening upside

Consider unsexy names like Steady Eddie Canadian telecom **BCE** (TSX:BCE)(NYSE:BCE) that have been in the doghouse lately due to modest headwinds brought forth by the COVID pandemic. With one of the more resilient operating cash flow streams out there, BCE has a dividend that value-conscious income investors can depend on, as most other firms look to take their payouts to the chopping block amid mounting pressures induced by partial lockdowns.

With many people cancelling their Christmas travel plans to avoid spreading the deadly coronavirus, the appetite for mobile (roaming) data has been absurdly low. While telecoms like BCE have seen their top line take a hit, but it's likely going to be a short-lived hit that will be very quick to revert to 2019 levels once the insidious coronavirus is conquered.

Foolish takeaway

With an attractive 6% yield, BCE represents a terrific way for Canadian investors to get more (sustainable) yield for less. The stock is down 15% from its all-time highs, and the name is likely to revisit the level in less than a year if all goes smoothly with the COVID vaccine rollout.

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