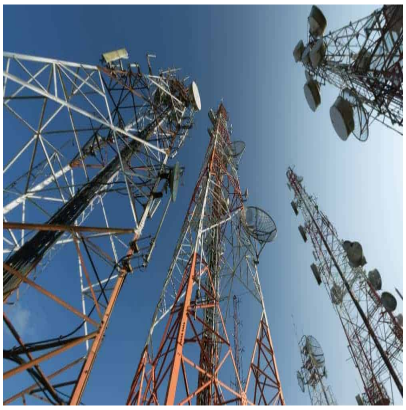

A Top High-Yield Canadian Stock I'd Buy Over BCE

Description

BCE (TSX:BCE)(NYSE:BCE) is a Canadian telecom behemoth with a colossal 5.7% dividend yield. The $55.4 billion company has one of the safer outsized payouts out there. Still, you can lose money by chasing the dividend at frothy valuations, especially because BCE stock is lacking on the growth front.

With shares now up nearly 12% year to date, I'd argue that the high-yield Canadian stock leaves little to be desired in terms of capital gains. It's the law of large numbers. The larger a firm becomes, the harder it is to sustain growth. Moreover, having media assets dragging on growth certainly doesn't help. While I'm not against buying BCE stock on a dip, as the yield breaks the 6% mark again, I'm just not enthused after its recent run compared to some other options in the Canadian telecom scene.

BCE has a magnificent dividend, but the high-yield Canadian stock is anything but cheap!

At nearly 25 times trailing earnings, you're paying up for BCE's juicy dividend. And unless you couldn't care less about capital appreciation, I'd take a raincheck on the name. Sell-side analysts seem to agree; BCE stock doesn't look super appealing at this critical market crossroads. The consensus price target currently sits at $62 and change, implying under 2% in upside from today's prices. Earlier this month, Simon Flannery of **Morgan Stanley** maintained his "hold" rating on the name with a $61 target, implying no capital gains through 2021.

BCE's dividend is one of the best out there. Still, at these levels, the dividend may be all you'll get, as the stock looks to run out of steam.

Quebecor: A lesser-known telecom with more upside potential

For investors seeking to maximize their total returns (that's capital gains on top of dividends paid), Quebec-based telecom **Quebecor** (TSX:QBR.B) seems like a better value bet. Admittedly, the dividend isn't nearly as bountiful at 3.4%. Still, with some of the best return on invested capital (ROIC) numbers in the space, I'd say it's likely that the year-ahead capital gains are likely to dwarf the 2.3% in yield you'll pass up on by choosing Quebecor over BCE.

In prior pieces, I've praised Quebecor for its operational excellence and its consistently high ROIC numbers over the years: "The company's ROIC numbers have on a steady uptrend over the years, with an impressive 11.5% ROIC posted over the trailing 12 months. As next-gen telecom tech is rolled out, Quebecor is in a spot to see its ROIC improve even further, despite intensifying competition in the broader Canadian telecom scene," I wrote in a prior piece.

Undoubtedly, Quebecor is a gem that even non-Quebecois Canadian investors can really appreciate.

The company has some exceptional managers running the show led by Pierre Peladeau. And although the dividend isn't nearly as bountiful as some of the other options in the Canadian telecom scene, I'd argue that it has the most room to run over the next five years, as new telecom tech continues to be rolled out across the province of Quebec.

The bottom line on Quebecor

Quebecor doesn't need to expand beyond the borders of Quebec. The province is large enough, and the company can get a better bang for its buck with its home advantage. And for that reason, Quebecor is a top pick in the telecom space, with shares trading at just 14.6 times trailing earnings and 1.8 times sales.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)
3. TSX:QBR.B (Quebecor Inc.)

PARTNER-FEEDS

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joefrenette