



BCE Stock: Should You Buy Right Now?

Description

BCE ([TSX:BCE](#))([NYSE:BCE](#)) stock has one of the best dividends out there. It's not only safe but it's also positioned to grow at a decent rate over the next decade, as the [5G tailwind](#) takes hold. Undoubtedly, BCE and the broader telecom scene have a lot going for them over the next few years. The pandemic's end will likely coincide with the rapid uptake for the next generation of mobile devices.

Undoubtedly, the 5G boom has been talked about a lot over the years. And while the pandemic may have dampened the adoption of the 5G standard, I think it's a mistake to think that the coronavirus has spoiled the party. Indeed, BCE and its top peers have been spending money hand over fist to build out reliable 5G infrastructure. And while such efforts may not pay real dividends until much later, I think long-term investors have a lot to gain over the long term with the growing dividend alone.

Telecom stocks have been unstoppable of late!

Over the past few weeks, BCE stock had really picked up [traction](#), though — so much so such that the name fell off my top picks list. Shares are up 17% from those November 2020 lows, and there's a strong ceiling of resistance just under 5% away. The dividend, which used to yield north of 6%, is now at 5.6%. While there's absolutely nothing wrong with the payout (it's going to grow furiously through the 2020s), I think the valuation on shares has become so stretched that forward-looking returns are likely to be incredibly modest.

Just how modest? I wouldn't at all be surprised if the stock did nothing for another three years. While you will get the juicy dividend and will gain ground over inflation, which is currently just north of 3%, there are likely far cheaper alternatives out there.

Does BCE stock's premium price tag justify its growth profile?

At the time of writing, BCE stock trades at nearly 23 times trailing earnings, which is a price that's indicative of a stalwart with modest growth prospects. While the next generation telecom tech rollout could beef up growth to the mid-single digits, I don't think there will be nearly enough earnings to justify

the lofty price tag.

Indeed, sell-side analysts aren't pounding the table on BCE stock either after its latest rally. Earlier this month, **RBC** Capital's Drew McReynolds maintained his "hold" rating on the stock with a meagre \$61 price target. The price target actually suggests BCE stock could be in for a prolonged period of consolidation at today's levels.

If McReynolds is right (I think he is), total returns could be south of the 5.6% dividend yield that investors will collect. Regardless, BCE stock is a great bond proxy for investors keen on ditching their unrewarding debt securities. Given the recent run and the likely odds of a near-term pullback, however, I'd argue that it's probably a better idea to put BCE on your watchlist with the intention of buying on the next major drawdown.

BCE is a great stock. The [valuation](#) is just not in the right spot, at least in my books.

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