1 Top Defensive Dividend Stock to Buy Now

Description

As we head into a time of year that has historically been volatile for the stock market, Canadian investors are searching for top defensive stock picks to add to their portfolios.

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Market outlook

September and October sometimes bring strong market corrections, and the frothy nature of the **TSX Index** right now might mean we face an elevated risk for a meaningful pullback. On top of the expensive market conditions, investors need to consider the rising threat of a fourth COVID-19 wave in the coming months.

The stock market often zigs when everyone expects it to zag, so a steady climb to even higher highs is certainly possible through the end of 2021. However, it would be prudent to consider taking some profits on the big pandemic winners and look to put the money in top-quality dividend stocks that should hold up well in the event the market goes through a healthy correction.

BCE

BCE (TSX:BCE)(NYSE:BCE) recently picked up a tailwind, and the stock's rebound off the 2020 lows could continue for some time.

The company posted solid Q2 2021 results. Net earnings jumped nearly 150% compared to the same period last year. Adjusted EBITDA rose 6.2%, supported by leading growth in wireless services revenue and average mobile billing per user.

The media group saw a nice rebound in ad spending across the multiple platforms. That trend should continue, as the pandemic restrictions end and businesses feel more comfortable spending on promotions to drive customers to their physical locations.

BCE is a partner in the ownership of the Toronto Maple Leafs, Argos, Raptors, and Toronto FC. The next full season for these teams should see fans return to the venues at full capacity.

On the communications side, BCE remains focused on expanding its fibre optic and 5G networks to meet future broadband demand. BCE just spent more than $2 billion to acquire 3500 megahertz spectrum for 5G communication services.

The company finished Q2 with $5.3 billion in available liquidity and continues to generate solid free cash flow that will enable the business to invest the funds needed to protect its competitive moat.

A recent decision by the CRTC to cancel planned price cuts on wholesale internet is a relief for BCE and its investors. The reversal gives BCE better clarity on its revenue outlook and has enabled the company to increase its capital program by $500 million.

Dividends

At the time of writing, BCE's quarterly dividend provides an annualized yield of 5.5%. That's a lot better than sticking funds in a GIC today, and you get the benefit of future distribution increases.

The stock trades near $63.50 per share. This is well above the 2020 low around $52 but still shy of the pre-pandemic price. Cheap borrowing costs are expected to remain in place for some time. That helps BCE fund its capital program at attractive rates, leaving extra cash available for distributions.

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The bottom line

BCE should be a good stock to buy right now for investors who want a top-quality defensive pick that pays a great dividend. If the market corrects in the next two months, BCE should hold up relatively well, and you get paid a great distribution to ride out the downturn.

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