BCE Stock: A Dividend Heavyweight That Could Take Share From Rogers

Description

Shares of **BCE** (TSX:BCE)(NYSE:BCE) have held their own rather well this year, down just 2% year to date. Though the stock slipped more than 16% as a part of a broader market correction, BCE stock still isn't the cheapest dividend heavyweight out there.

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Though the 5.75% dividend yield is bountiful, the 20.4 price-to-earnings (P/E) multiple leaves a lot to be desired, as the Canadian economy slowly moves into a potential 2023 recession. Still, BCE stock has a premium price tag for a reason. Its dividend is incredibly reliable and is likely to hold up through a coming economic downturn. That alone is enough for most Canadian income investors to open up their wallets.

BCE and the Big Three prepare for a recession

Telecoms tend to hold their own better than most other dividend payers during tougher economic times. However, as consumer balance sheets begin to feel a bit of a pinch, we could see missed monthly bill payments as a result of inflation and anticipation of a broader slowdown in economic growth.

In the United States, telecom giant **AT&T**, which previously spun off its media assets, stated that various consumers are beginning to pay their phone bills a tad late. It's not a great sign for the industry, as central banks like the Bank of Canada (BoC) and the U.S. Federal Reserve (the Fed) continue to raise the bar on interest rates.

Despite AT&T's dire recession warning, BCE stock does have one of the best-covered dividends with yields near the 6% mark. Undoubtedly, BCE has one of the most commanding payouts in the space, making it a go-to for many passive-income investors in Canada.

Currently, BCE's payout ratio is at 113%, which may seem stretched but is actually just marginally higher than the telecom industry average just south of 100%. Though the telecom space calls for significant infrastructure investments, BCE seems fine balancing investments and its generous capital return structure.

In the latest quarter, BCE clocked in okay numbers in wireless, with 8% growth year over year. With 83,000 postpaid phone users brought in, BCE doesn't seem to be feeling the effects of an ensuing downturn. Still, things could change, as further evidence of an economic slowdown flows in over the next few months.

BCE could get a jolt from Rogers's outage

Rival telecom **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) bested BCE in broadband for the latest quarter, with 26,000 broadband subscribers added versus BCE's 23,000. Though Rogers seems to be in a better spot to take share, its recent nation-wide outage could hurt its reputation and induce considerable switching. Arguably, Rogers's embarrassing outage is BCE's gain.

In a competitive telecom environment, such huge outages are unacceptable. Though Rogers has made things right for those affected with credits (around $150 million in outage-related credits expected to be paid out), I'm unsure when the bitter taste in customers' mouths will be forgotten. Outages not only caused financial damages but a great deal of stress. Perhaps credits may not be enough to prevent customers from jumping ship when the time is right.

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In such a competitive telecom scene, outages are unacceptable. And I think BCE can make the most of the opportunity to beckon in switchers.

Bottom line

BCE isn't cheap. But it doesn't deserve to be cheap. The fat dividend and ability to take share (away from Rogers in particular) going into a downturn could pave the way for solid year-ahead gains.

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