Why BCE (TSX:BCE) Fell 13% in September

Description

Canada's largest wireless communications company **BCE** (TSX:BCE) dropped 13% in September. The stock was flat for much of this year, but this recent dip has pushed it into a net loss.

Here's why BCE stock is sliding lower and what comes next.

Falling stocks

BCE is one of the largest companies in Canada. In fact, it's the 16th-largest company on the stock market based on market value. That means the stock is sensitive to broader market sentiment.

The **S&P/TSX Composite Index** dropped 5.5% in September. Investors are worried about a potential recession and sagging consumer demand. That means capital is flowing out of the stock market and dragging all the largest companies lower. BCE isn't immune to this effect. That's why the stock is now cheaper than it was in August.

Rising interest rates

Rapidly rising interest rates could be another reason why BCE stock dropped last month. In early September, the Bank of Canada delivered another supersized rate hike of 75 basis points (0.75%). That has pushed the benchmark interest rate up to 3.25%.

Rising interest rates have a magnified impact on companies with too much debt. It makes borrowing money more expensive, which impacts profits. BCE's debt-to-equity ratio is 127.6%. That means it has more long-term debt than the value of its equity. Rising interest rates could make this debt burden more difficult to manage.

Meanwhile, BCE's dividend-payout ratio is 114%, which means it is paying more than it can afford. If the cost of interest payments rises too much, BCE may have to divert some cash away from shareholder rewards to debt servicing. That makes it less attractive as a dividend stock.

BCE stock valuation

Investor sentiment and rising interest rates have pushed BCE stock lower. However, the stock valuation still isn't attractive enough, in my opinion.

BCE stock trades at a price-to-earnings ratio of 19.4, which implies an earnings yield of 5.2%. Meanwhile, its recent dip has pushed the dividend yield up to 6.2%. Both these figures are below the current rate of inflation at 7%.

The company isn't growing rapidly either. It's already the largest telecom company in the country, which means much of its expansion is based on population growth and rising costs. This is reflected in the stock price. BCE stock has been flat for much of the past decade, which means investors can expect little to no capital appreciation.

In its most recent quarter, revenue was up 4.6% while net earnings were down 10.9%. Earnings could be under pressure for longer if consumers struggle with inflation and delay upgrades to new devices such as the latest iPhone.

Put simply, BCE's recent slide is justified, and it's trading at fair value. But investors have better alternatives for growth or dividend income.

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