5 Things to Know About BCE Stock in February 2023

Description

Higher interest rates and adamant inflation have not spared anyone. Even Canada's largest telecom stock **BCE** (TSX:BCE) has dropped 17% since last April. In comparison, the TSX Index has fallen 5% in the same period. While utilities and telecoms generally trade lower in rising-rate environments, BCE stock has seen a lopsided impact after higher inflation pulled its latest earnings lower.

BCE tracked peers in terms of total shareholder returns

In the last 12 months, BCE has underperformed its peers in the three-player dominated telecom industry in Canada. However, it has largely mimicked peers in the long term. In the last decade, BCE delivered total returns of 9% compounded annually, including dividends.

Capital expenditure and financial growth

BCE has upped its capital-expenditure plan with around $14 billion to be invested between 2022 and 2024. It is expected to go for network improvements and will likely help gain market share in the next few years.

In 2022, BCE reported total revenues of $24 billion, marking a decent 3% increase year over year. Telecoms generally grow this slowly and, thus, underperform in bull markets. On the net income front, BCE reported a total net income of $2.86 billion — an increase of 1% compared to 2021.

After a decline in free cash flows in the last two years due to aggressive capex, investors might see decent growth in the next few years.

Key performance indicators

BCE has seen stellar post-paid wireless subscriber base growth recently, thanks to the recent record capital spending.

BCE's blended ARPU (average revenue per user) came in at $59.3 per month last year, indicating an increase of 3% over 2021. It is an essential metric in the telecom industry and is calculated as total wireless revenue divided by the total number of subscribers. BCE reported the highest ARPU last year compared to its two peers.

BCE's churn rate last year was 1.3%, indicating an increase compared to 2021. Churn rate is a measure of mobile phone subscribers cancelling their services and indicates the company's ability to retain customers.

Dividends

BCE stock currently yields 6.3%, the highest among its peers. It increased 2023 shareholder dividends by 5.2% compared to last year. A stable business model and earnings visibility make its dividends reliable.

Note that BCE's payout ratio has been above 100% for the last three years — higher than its guided 70%. This means that the company is paying out more in dividends than it earns. This may not continue for long, unless its earnings increase.

Valuation

BCE is currently trading 20 times its earnings, which is in line with its peers. Its solid execution and stable free cash flow growth could drive a valuation multiple expansion in the long term.

Stocks like BCE might not be suitable for all kinds of investors. Its less-volatile stock and stable dividends make it apt for conservative, income-seeking investors. Although they underperform broader markets in bull markets, telecom stocks like BCE stand tall in bearish markets.

Should you buy BCE stock?

Stable dividend growth underpinned by free cash flow growth makes BCE stock an appealing bet for low-risk investors. Its robust balance sheet and expanding subscriber base place it on a solid footing in a transforming telecom industry.

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vinitkularni20