Why BCE’s Latest Transaction Demonstrates a Commitment to Stability

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) recently announced the sale of 25 data centres to **Equinix, Inc.**, a data centre REIT. This represents all of BCE’s standalone data centres that are not located in its network central offices. Equinix will be paying just over $1 billion to BCE for the data centres.

The value of the transaction is relatively insignificant for BCE, which has a market capitalization of over $50 billion. However, the transaction serves as an important strategic signal to investors and the market.

Ultimately, the asset sale provides non-dilutive financing that will allow BCE to double down on its core competitive strengths.

Asset sales are non-dilutive financing that preserve future cash flows

It appears that BCE, like many other companies during the pandemic, sought to shore up its balance sheet. Had BCE issued more equity, it would have put additional demands on future cash flows, as BCE’s equity also bears a relatively high dividend yield at almost 6%.

The dividend already costs BCE just over $3 billion per year, and this is before factoring in future increases. BCE can’t simply issue new shares and not pay those new shares a dividend. Similarly, BCE can’t cut the dividend because it would crater the stock price.

While debt could have been an option, BCE was likely hesitant in taking on more debt at a time when its media business has seen its income shrink significantly. This is especially true given BCE’s focus on sports and the impact that COVID-19 has had on major sports leagues.

Shrinking income reduces the ability for BCE to service debt. Issuing more debt in the face of such uncertainty was probably something that BCE sought to avoid, given that overextending could result in a credit downgrade.

A lower credit rating could make it more expensive for the company to borrow in the future. Asset sales therefore make a lot of sense from a cash flow preservation perspective.

Sale emphasizes competitive strengths

BCE's operations are mostly confined to Canada, with limited international exposure. Equinix is a global data centre provider. Increasingly, data centre companies offer clients solutions around the globe. BCE's limited scale and reach in its data centre business likely meant that this decision to sell its data centres was going to have to be made sooner or later.

Given the investments that would have been required to compete effectively in this area globally, taking the money and running is a smart move.

Additionally, BCE maintains a partnership with Equinix, as its first Canadian Equinix Platinum Partner, and will still be able to derive some financial benefit from the long-term client relationships that it has built with the ability to continue to build given BCE's prominence in the Canadian marketplace.

5G will be a major expenditure for BCE in the coming years. This, combined with continued rollout of its fiber-optic network, will require a significant amount of funds given how resource intensive building these types of infrastructures are.

Choosing to allocate its limited resources to these projects is smart for BCE, since BCE is, at its core, a network infrastructure and media company.

While data centres may provide some additional growth prospects, allocating capital to non-core areas at a time like this is certainly a risky proposition for a company like BCE, which has built its name on stability and predictability.

Takeaway

Data centre businesses have seen significant growth in the past decade. However, BCE is not a data centre company. BCE has always been, at its core, a network infrastructure company. More recently, media has become an integral part of BCE's DNA.

Choosing to double down on its core areas during times of uncertainty is in line with BCE's reputation as a stable and predictable shareholder-friendly company — a move that indicates a commitment to shareholders and to the long-term stability of BCE.

CATEGORY

1. Investing

POST TAG

1. NYSE:BCE
2. TSX:BCE

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. TSX:BCE (BCE Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

Tags

1. NYSE:BCE
2. TSX:BCE

Date
2025/08/15
Date Created
2020/06/06
Author
kwalton