

Death of BCE deal would be investors' delight

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Investors seeking the stability of stocks with healthy yields in a turbulent time for equity markets are salivating at the prospect of stuffing their portfolios with depressed shares of BCE Inc.

If the telecom giant's \$52-billion privatization deal falls apart and it reinstates its 36.5-cent quarterly payout, the stock would have a dividend yield of almost 6% at \$25 per share.

"Given the volatility we've seen in the market and the demand for income products that there is in Canada given our demographics, BCE fits nicely into that fold," said **Neeraj Monga**, an analyst at **Veritas Investment Research**.

"I would think that fits perfectly for a lot of dividend funds," said Shane Jones, managing director and head of equities at Scotia Cassels. "It is still a growing company based on the various things that they do. Therefore, you can expect some dividend growth over time."

He suggested that not only will the dividend be re-instituted immediately if the deal falls apart, but shareholders will probably either receive a special dividend or see a share buyback, giving the stock a short-term boost. BCE saved approximately \$600-million by suspending its second and third-quarter dividends pending the buyout.

BCE has amassed a cash position of \$2.8-billion. The company could use this to repurchase as much as 100 million of its shares outstanding, according to National Bank Financial's Greg MacDonald. The analyst suggested that a dividend of \$1.80 is feasible. "In this yield-favourable environment we believe there is ultimate valuation support for the stock at \$26-\$30," he told clients, assuming a yield between 6% and 7%.

BCE finished a dismal session Wednesday at \$25.25 a share, roughly where it traded nine years ago, just slightly above its bear market lows of 2002 and well below the \$30 level it was trading at before takeover speculation first emerged in March 2007.

"It appears that the shares may also have already priced in significant fears of recessionary conditions for an ongoing standalone company," said Colin Cieszynski, analyst at CMC Markets Canada.

Mr. Monga at **Veritas** estimated BCE is worth around \$28 a share. "It's a good buy," he said, noting that the upcoming news flow will likely keep the stock volatile. "The fact remains that given the conditions we are seeing on the financing side, some of the new competition in the wireless segment may not materialize as quickly as foreseen earlier."

Based on rival Telus Corp.'s valuation, BCE shares are worth between \$24 and \$25, according to UBS analyst Jeffrey Fan. "In the short-term, however, from a trading perspective, the shares will likely overshoot on the downside," he said in a research note.

Manitoba Telecom Services Inc. has a dividend yield of roughly 6.6% and a price-to-earnings multiple of 13 times. Telus yields about 5% and trades at a PE of 11 times -- a multiple not far above BCE's after Wednesday's plunge. "BCE reverted to its Telus [comparison]," said Steven Isenberg, chief executive of M Partners. "It's not a bad spot to be in."