



# BCE Inc. (BCE)

Updated February 13<sup>th</sup>, 2025 by Kay Ng

## Key Metrics

<b>Current Price:</b>	\$24	<b>5 Year CAGR Estimate:</b>	13.4%	<b>Market Cap:</b>	\$21.6B
<b>Fair Value Price:</b>	\$29	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	03/14/25
<b>% Fair Value:</b>	82%	<b>5 Year Valuation Multiple Estimate:</b>	4.0%	<b>Dividend Payment Date:</b>	04/15/25
<b>Dividend Yield:</b>	11.9%	<b>5 Year Price Target</b>	\$30	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## Overview & Current Events

BCE Inc. is a telecommunications and media company that provides communications services in the following business units: Bell Communication and Technology Services (“CTS”), which includes Wireless and Wireline, and Bell Media. BCE addresses residential customers as well as small- and medium-sized businesses and large enterprise customers. BCE was founded in 1970, is headquartered in Verdun, Canada. Shares are listed on the NYSE and on the TSX in Toronto. This report uses U.S. Dollars unless noted otherwise.

BCE reported its Q4 and full-year 2024 results on 2/6/2025. For the quarter, its operating revenues fell 0.8% year over year (“YOY”) to C\$6.4 billion, its adjusted net earnings rose 4.1% to C\$719 million, while its adjusted EBITDA (a cash flow proxy) rose 1.5% to C\$2.6 billion. Adjusted earnings-per-share (“EPS”) rose 3.9% to C\$0.79 versus the same quarter a year ago. It also generated cash flows from operating activities of C\$1.9 billion (down 21%) and free cash flow (“FCF”) of C\$874 million, down 32% YOY.

For 2024, operating revenue was C\$24.4 billion, down 1.1% YOY. Adjusted EBITDA climbed 1.7% to C\$10.6 billion with the margin expanding 1.2% to 43.4%. Adjusted EPS declined 5.3% to C\$3.04, equating US\$2.22. BCE initiated its 2025 guidance, projecting revenue growth of -3% to 1%, adjusted EBITDA growth of -2% to 2%, adjusted EPS decrease of 13% to 8%, and free cash flow growth of 11% to 19%. (BCE notes the estimates are not affected by the pending divestiture of Northwestel as well as excludes the Ziplly Fiber acquisition.) We initiate our 2025 EPS estimate at US\$1.92.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$2.29	\$2.54	\$2.43	\$2.67	\$2.63	\$2.35	\$2.52	\$2.52	\$2.36	\$2.22	<b>\$1.92</b>	<b>\$2.02</b>
<b>DPS</b>	\$2.00	\$2.04	\$2.17	\$2.36	\$2.39	\$2.48	\$2.79	\$2.81	\$2.87	\$2.91	<b>\$2.81</b>	<b>\$2.81</b>
<b>Shares<sup>1</sup></b>	866	871	901	900	905	905	909	914	912	912	<b>912</b>	<b>935</b>

BCE is under transformation, as it looks to reduce costs while balancing growth and profitability. On 11/4/24, BCE announced it was acquiring Ziplly Fiber for ~C\$5.0 billion plus the assumption of outstanding net debt of ~C\$2.0 billion, which would extend BCE’s fiber footprint to the United States. BCE is paying ~14.3x 2025 estimated adjusted EBITDA, including run-rate synergies, which seems like a full valuation. Furthermore, the US\$ is at the high end of strength for the last decade versus the C\$. The acquisition is expected to close in the second half of 2025. Notably, BCE is freezing its dividend for 2025, as it targets more conservative payout and net debt leverage ratios.

BCE’s EPS declined by 0.3% annually from 2015 to 2024 with considerable ups and downs in between because of slow growth. BCE’s dividend grew 4.3% a year from 2015 to 2024 as measured in US\$. We’re not sure if BCE’s Ziplly Fiber acquisition will drive higher growth for the company. Plus, BCE seemed to have paid a high multiple for the acquisition, not helped by a strong US\$. To be conservative, we further reduced our EPS and DPS growth rates to 1% and 0%, respectively through 2030. Given BCE’s high payout ratio, a dividend cut is possible – potentially a cut of around 50%. The Bank of Canada cut the policy interest rate from the peak of 5.0% in April 2024 to 3.00% in January 2025, which should help improve the operating environment of debt-heavy telecoms like BCE.

<sup>1</sup>Years of Dividend Growth in Canadian dollars; Shares in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	18.7	17.7	18.9	15.8	16.3	17.9	19.8	19.7	17.8	14.6	12.3	15.0
Avg. Yld.	4.7%	4.5%	4.7%	5.6%	5.6%	5.9%	5.4%	5.7%	6.6%	8.8%	11.9%	9.3%

From 2015-2024, BCE averaged a price-to-earnings ratio (P/E) of 17.7. However, wariness about its high payout ratio, and heightened uncertainty with its growth outlook from the media asset sale and acquisition of U.S. fiber assets, we target a P/E of 15. The stock appears to trade at a discount, but that's due to the heightened uncertainty.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

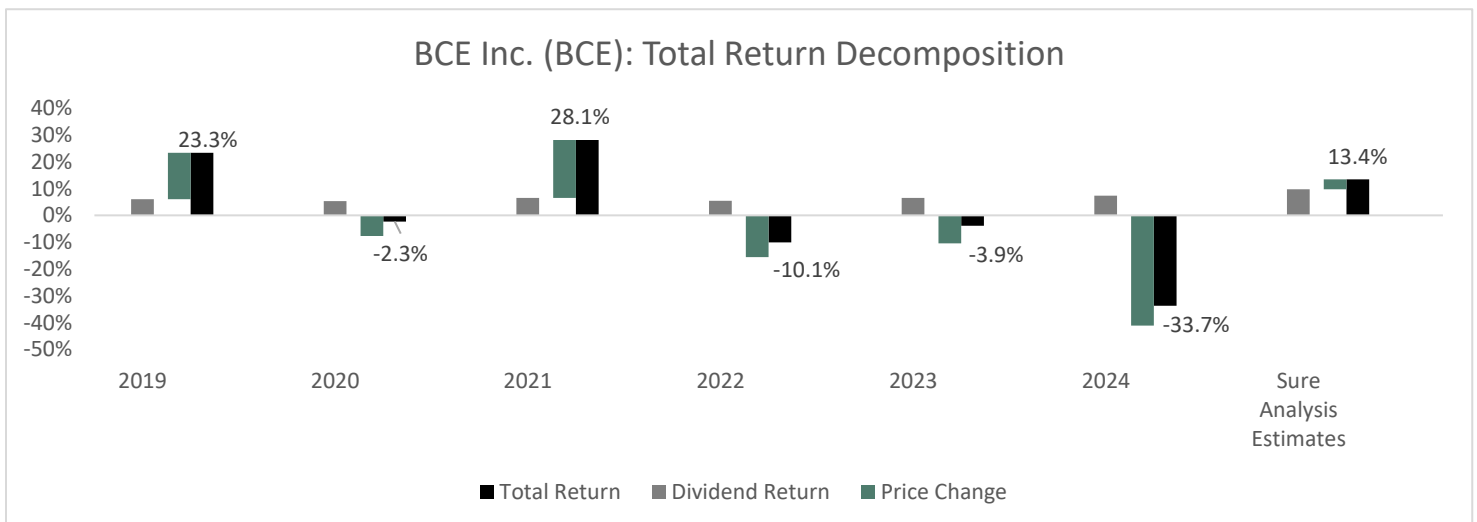
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	87%	80%	89%	88%	91%	106%	111%	112%	122%	131%	146%	139%

BCE's dividend payout ratio is extended. Notably, it typically produces cash flows that are higher than its earnings. Normally, its FCF better supports its dividend than its earnings, but its recent FCF payout ratios have been stretched because of intensive capital investments. In the short term, BCE can choose to sustain its dividend, having financial flexibility from available liquidity of ~C\$4.5 billion (including C\$1.57 billion in cash) at the end of Q4 2024. In comparison, BCE paid ~C\$3.8 billion in dividends in 2024. Its FCF should improve over the next few years, which should bring the FCF payout ratio down to more comfortable levels. Its net debt to adjusted EBITDA ratio was 3.8x at the end of Q4 2024. BCE's largest competitive advantage is the service it provides to its customers. As the Canadian operator with the best network, customers should be drawn to BCE, and the company's peers would have to invest billions to match BCE's network quality. This is why the telecom industry is not threatened by new entrants, as market entry barriers are high. However, BCE noted its "Q4 2024 results reflect our continued focus on competing in a hyper-competitive communications market" and "our 2025 financial guidance reflects an uncertain macroeconomic and regulatory environment."

## Final Thoughts & Recommendation

BCE is a value stock that pays a big dividend, which could be cut. We estimate long-term annual returns of 13.4% per year (11.9% dividend, 1.0% EPS growth, and 4.0% from valuation expansion). Assuming an immediate 50% dividend cut, the estimated long-term return would be 9.6%. We rate the stock as a "Hold".

## Total Return Breakdown by Year



<sup>1</sup> Years of Dividend Growth in Canadian dollars; Shares in millions.

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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	19,060	16,856	16,401	17,559	18,109	17,927	17,079	18,703	18,581	18,270
<b>Gross Profit</b>	12,814	10,877	11,256	12,329	11,997	12,482	12,426	12,629	12,170	12,483
<b>Gross Margin</b>	70.2%	69.3%	69.1%	69.2%	68.7%	69.1%	69.6%	68.9%	68.4%	67.9%
<b>SG&amp;A Exp.</b>	---	---	---	-59	62	---	---	---	---	---
<b>D&amp;A Exp.</b>	3,127	2,680	2,649	2,966	3,097	3,273	3,287	3,676	3,630	3,642
<b>Operating Profit</b>	4,394	4,020	3,987	4,255	4,199	4,266	3,883	4,215	4,209	4,099
<b>Operating Margin</b>	23.1%	23.8%	24.3%	24.2%	23.2%	23.8%	22.7%	22.5%	22.7%	22.3%
<b>Net Profit</b>	2,264	2,098	2,289	2,310	2,260	2,404	1,966	2,265	2,204	1,676
<b>Net Margin</b>	11.9%	12.4%	14.0%	13.2%	12.5%	13.4%	11.5%	12.1%	11.9%	9.2%
<b>Free Cash Flow</b>	1,774	1,656	2,169	2,565	2,590	3,002	2,587	869	2,482	2,357
<b>Income Tax</b>	841	724	838	825	768	851	591	833	743	738

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	39,882	34,585	38,232	44,375	41,923	46,044	47,574	52,339	51,082	54,230
<b>Cash &amp; Equivalents</b>	488	442	633	497	312	111	176	162	110	582
<b>Accounts Receivable</b>	2,509	2,039	2,099	2,383	2,106	2,155	2,415	3,097	3,049	3,039
<b>Inventories</b>	287	300	299	302	317	327	344	378	483	351
<b>Goodwill &amp; Intangible</b>	16,030	14,090	15,543	18,836	17,520	18,388	18,591	20,503	19,959	20,770
<b>Total Liabilities</b>	26,754	22,097	24,202	27,974	26,733	29,655	30,848	34,364	34,493	38,730
<b>Accounts Payable</b>	2,080	1,619	1,720	1,947	1,861	1,993	2,035	3,494	3,847	3,565
<b>Long-Term Debt</b>	17,313	14,618	15,916	18,603	17,918	20,131	20,643	23,273	23,519	27,270
<b>Shareholder's Equity</b>	9,426	9,382	10,827	12,961	12,011	13,068	13,321	14,595	13,490	12,480
<b>LTD/E Ratio</b>	1.34	1.19	1.15	1.15	1.20	1.25	1.25	1.31	1.44	1.79

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	5.5%	5.6%	6.3%	5.6%	5.2%	5.5%	4.2%	4.5%	4.3%	3.2%
<b>Return on Equity</b>	22.3%	22.3%	22.7%	19.4%	18.1%	19.2%	14.9%	16.2%	15.7%	10.5%
<b>ROIC</b>	7.1%	7.3%	8.0%	7.1%	6.6%	6.9%	5.3%	5.8%	5.4%	4.1%
<b>Shares Out.</b>	840	866	871	901	900	905	905	909	912	912
<b>Revenue/Share</b>	23.99	19.87	18.84	19.62	20.15	19.89	18.88	20.63	20.37	20.03
<b>FCF/Share</b>	2.23	1.95	2.49	2.87	2.88	3.33	2.86	0.96	2.72	2.58

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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