

## BCE Inc. (BCE)

**\$47.20** (As of 01/16/20)

Price Target (6-12 Months): **\$50.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/06/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: C

## Summary

BCE's wireless segment is expected to benefit from postpaid business as it enjoys solid subscriber addition and higher revenue contribution from prepaid services. On the wireline front, it expects results to improve in 2020 as it gains from an increase in net revenue generation units. It focuses on six areas, investing in broadband network and services, accelerating wireless services, leveraging wireline momentum, expanding media coverage, improving customer service and achieving a competitive cost structure. However, its local lines for traditional telephony service continue to face a decline among large customers. The successful implementation of BCE's core goals is the most critical factor in determining its profitability. The execution requires enhanced employee skills and more capital investments, which puts strain on margins.

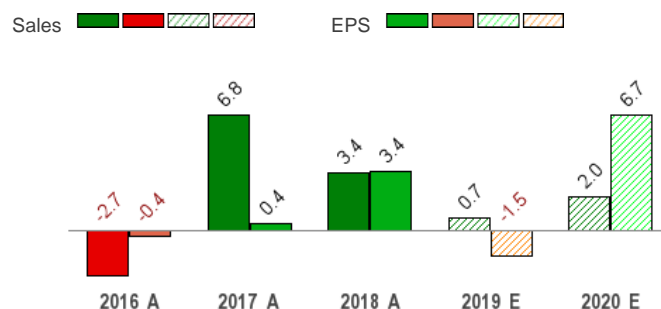
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$49.58 - \$41.50
20 Day Average Volume (sh)	642,637
Market Cap	\$42.7 B
YTD Price Change	1.8%
Beta	0.36
Dividend / Div Yld	\$2.41 / 5.1%
Industry	<a href="#">Diversified Communication Services</a>
Zacks Industry Rank	Bottom 22% (199 out of 254)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.4%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	17.9
P/E F1	16.6
PEG F1	4.7
P/S TTM	2.4

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	4,521 E	4,768 E			18,593 E
2019	4,313 A	4,433 A	4,533 A	4,789 E	18,229 E
2018	4,423 A	4,483 A	4,532 A	4,703 A	18,108 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.72 E	\$0.84 E			\$2.85 E
2019	\$0.58 A	\$0.70 A	\$0.69 A	\$0.68 E	\$2.67 E
2018	\$0.63 A	\$0.65 A	\$0.74 A	\$0.67 A	\$2.71 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/16/2020. The reports text is as of 01/17/2020.

## Overview

BCE Inc. is Canada's largest communications service provider and serves as the holding company for Bell Canada. The company provides local and long-distance phone service to approximately 70% of the Canadian population, primarily in Ontario and Québec.

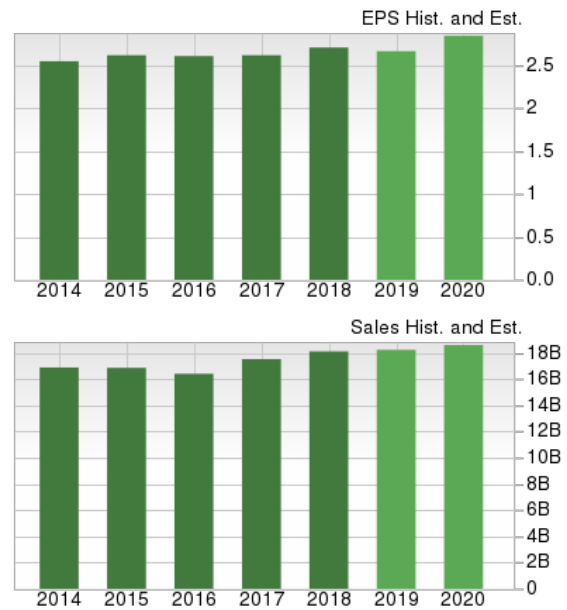
BCE's wholly-owned subsidiary Bell Canada operates the company's wireline (Bell Wireline) and wireless (Bell Wireless) businesses, Bell Media as well as the satellite TV operation, known as ExpressVu. Bell Canada is the largest local exchange carrier in Ontario and Quebec. The company provides wireless service, data communications, telephone, high-speed Internet, direct-to-home (DTH) satellite television and Voice over Internet Protocol (VoIP) services. Bell Canada also offers integrated information and communications technology (ICT) services to businesses and governments, and is the virtual chief information officer (VCIO) to small and medium businesses (SMBs).

BCE reports operating results in three segments, namely, Bell Wireline, Bell Wireless and Bell Media. The following is a snapshot of the company's operating segments:

**Bell Wireline** (49.7% of total operating revenues in third-quarter 2019): Provides local telephone, long distance, data, video and other communications services to residential, business and large enterprise customers primarily in the urban areas of Ontario and Quebec.

**Bell Wireless** (38.1%): Offers wireless voice and data communications products and services to residential, small and medium businesses and large enterprise customers across Canada.

**Bell Media** (12.2%): Offers a package of mobile content featuring the most popular news, entertainment and sports programming in Canada, including live or on-demand programming from TSN, RDS, BNN, MTV and The Comedy Network as well as Bell's popular Sympatico.ca portal.



---

## Reasons To Buy:

- ▲ BCE's wireless segment is expected to benefit from postpaid business as it continues to enjoy solid subscriber additions as well as higher revenue contribution from prepaid services. Significant investments in network coverage, customer retention, lucrative data plans and launch of new handsets are likely to drive subscriber base expansion. Of late, it is witnessing operating profitability growth across its wireless, wireline, and media segments.
- ▲ On the wireline front, the Canadian telecommunications company expects financial results to improve in 2020 as it continues to gain from an increase in net revenue generation units. The EBITDA growth trend in the segment is expected to stay. BCE continues to benefit from FibeTV and FibreOP TV growth, price hike and an improved business market stemming from a steady economy. The company had reiterated its financial targets for 2019 (as provided on Feb 7, 2019) in accordance with IFRS 16 accounting standards. It continues to expect revenues to grow between 1% and 3%. While adjusted EBITDA is expected to rise 5-7%, adjusted EPS is expected between C\$3.48 and C\$3.58. Free cash flow is estimated to grow in the range of 7-12%.
- ▲ BCE is likely to benefit from robust activities in the wireless business, strong subscriber additions, drop in churn rates and its focus on technology upgrades. The company continues to focus on six strategic areas, investment in broadband network and services, accelerating wireless services, leveraging wireline momentum, expanding media coverage, improving customer service and achieving a competitive cost structure. These initiatives are expected to generate higher revenue per user and attract new customers in the coming days.

BCE continues to benefit from robust activities in the wireless business, strong subscriber additions, drop in churn rates and focus on technology upgrades. Margins are expected to improve gradually.

---

## Reasons To Sell:

- ▼ The successful implementation of BCE's six core goals is the most critical factor in determining its future profitability. The execution requires enhanced employee skills, more capital investments and targeted cost reductions. Failure of any of these changes might have an adverse impact on the company's financials and growth prospects, thereby leading to lower revenues and profitability.
- ▼ The price cap rules introduced by the Canadian regulators are limiting rate increase and reducing the amount that incumbent carriers can charge competitors for accessing their network. While BCE attempts to offset inter-carrier price caps by raising the fees of its own end-users, the market dynamics and dictating elasticity have reduced overall demand as customers switch to lower-priced carriers. Moreover, the company's local line access for traditional telephony service continues to face a decline among large customers due to higher wireless substitution and migration to IP-based services. This is reflected by persistent erosion in overall network access services on a year-over-year basis, hurting revenues of the local and long distance operations.
- ▼ With rapid growth in video and other bandwidth-intensive applications on the Internet and on mobile devices, BCE continues to invest substantially in LTE, broadband and fiber in order to provide additional capacity on Internet and wireless networks. The company may be unable to recover these costs from customers due to competitors' short-term pricing of comparable services. Also, a major portion of BCE's employees are represented by unions and covered by collective bargaining agreements. Renegotiating collective bargaining agreements could result in higher labor costs and work disruptions, including work stoppages or work slowdown. Moreover, satellites used by Bell TV are subject to significant operational risks. Satellites that are not yet built are subject to construction and launch delays that could have an adverse effect on Bell TV's business and financial health.

BCE continues to struggle with stringent regulatory norms, losses in network access service lines, price competition and labor union issues. Operational risks related to satellites remain headwinds.

## Last Earnings Report

### BCE Q3 Earnings Miss, Revenues Beat on Segment Strength

BCE reported mixed third-quarter 2019 financial results, wherein the top line surpassed the Zacks Consensus Estimate but the bottom line missed the same.

#### Net Earnings

Quarterly net earnings increased 6.5% year over year to C\$867 million (\$656.6 million) or C\$0.96 (73 cents) per share. This was driven by strong growth in adjusted EBITDA, higher other income, and lower severance, acquisition and other costs. However, the momentum was partly offset by higher income tax, increased depreciation and amortization expense, and higher finance costs.

Adjusted net earnings came in at C\$820 million (\$621 million) or C\$0.91 (69 cents) per share compared with C\$861 million or C\$0.96 per share in the prior-year quarter. The decline was attributable to uncertain tax positions that were favorably resolved in the year-earlier quarter resulting in lower income tax last year. The bottom line missed the Zacks Consensus Estimate by a penny.

#### Revenues

The Canadian telecommunications company's quarterly total operating revenues increased 1.8% year over year to C\$5,984 million (\$4,532.1 million), reflecting growth at all Bell operating segments. Service revenues grew 1.3% to C\$5,185 million on strong wireless, Internet and IPTV subscriber base growth. Product revenues were up 5.1% to C\$799 million, as a result of greater volumes of higher-value smartphones and wireless rate plans in the sales mix. The top line surpassed the consensus estimate of \$4,511 million.

#### Segment Results

Operating revenues at **Bell Wireless** increased 3.5% year over year to C\$2,348 million (\$1,778.3 million). Service revenues improved 2.5% to C\$1,673 million, driven by strong subscriber base growth and higher revenue contribution from prepaid services. Product revenues increased 6% to C\$675 million due to higher sales mix of premium smartphones and higher-value rate plans.

Operating revenues at **Bell Wireline** increased 0.2% year over year to C\$3,066 million (\$2,322.1 million) driven by higher Internet and IPTV revenues, and growth in business IP broadband connectivity and service solutions. However, the momentum was moderated by decline in legacy voice revenues, the impact of acquisition and retention discounts on residential service bundles to match aggressive competitor promotions, decline in low-margin data equipment sales to large business enterprise customers, and the lapping of the Axia NetMedia acquisition during the reported quarter. Service revenues were up 0.2% to C\$2,941 million, while product revenues remained almost flat year over year at C\$125 million.

**Bell Media** generated revenues of C\$751 million (\$568.8 million), up 2.7% year over year, driven by higher revenues from Crave subscriber base growth over the prior year. Advertising revenues were down due to the non-recurrence of revenues generated in the year-earlier quarter from the FIFA World Cup Soccer broadcast.

#### Other Details

Adjusted EBITDA was C\$2,594 million, up 5.6%, driven by year-over-year increase of 7.9% at Bell Wireless, 1.4% at Bell Wireline and 24.2% at Bell Media. Adjusted EBITDA margin improved to 43.3% from 41.8%, reflecting the high flow-through of service revenue growth, increasing broadband Internet scale, disciplined spending on wireless postpaid subscriber acquisitions and 0.9% reduction in total operating costs, which included the favorable impact of IFRS 16.

#### Cash Flow & Liquidity

During third-quarter 2019, BCE generated C\$2,258 million of cash from operating activities compared with C\$2,043 million in the year-ago quarter. The increase was mainly due to adjusted EBITDA growth and lower income tax paid. Free cash flow for the same period was C\$1,189 million compared with C\$1,014 million in the prior-year quarter, driven by higher cash flows from operating activities (excluding acquisition and other costs paid). As of Sep 30, 2019, the company had C\$966 million (\$729.5 million) in cash and equivalents with C\$22,445 million (\$16,950.1 million) of long-term debt.

#### 2019 Outlook Reiterated

BCE has reiterated its financial targets for 2019 (as provided on Feb 7, 2019) in accordance with IFRS 16 accounting standards. The company continues to expect revenues to grow between 1% and 3%. While adjusted EBITDA is expected to rise 5-7%, adjusted EPS is expected between C\$3.48 and C\$3.58. Free cash flow is estimated to grow in the range of 7-12%.

*Conversion rate used:*

*C\$1 = \$0.757364 (period average from Jul 1, 2019 to Sep 30, 2019)*

*C\$1 = \$0.755182 (as of Sep 30, 2019)*

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	0.49%
EPS Surprise	-1.43%
Quarterly EPS	0.69
Annual EPS (TTM)	2.64

## Recent News

On Jan 14, 2020, BCE's subsidiary, Bell MTS, announced that it has augmented its all-fiber broadband network in Flin Flon to bring Gigabit Internet speeds and advanced Fibe TV service to nearly 2,800 homes and enterprises across northern Manitoba. The move will provide economic benefit to the region and help improve the quality of life for residents. The company's commitment to invest a billion dollars in updating Manitoba's communications infrastructure is contributing to monetary and social opportunities in northern Manitoba and other parts of the province. People will have access to Bell MTS Gigabit Fibe Internet, Whole Home Wi-Fi and Fibe TV with a direct connection to the Bell MTS fiber network. Construction of the Flin Flon fiber project starts in March.

On Jan 6, 2020, BCE announced that it has welcomed Mirko Bibic as president and chief executive officer. It also communicated his appointment to the boards of BCE and Bell Canada. Mr. Bibic assumes the chief executive role following George Cope's retirement.

## Valuation

BCE shares are up 12.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 29.4% over the past year, but stocks in the Zacks Utilities sector are up 3.5% in the same time frame.

The S&P 500 Index is up 23.2% in the past year.

The stock is currently trading at 8.21X trailing 12-month EV/EBITDA, which compares to 11.14X for the Zacks sub-industry, 17.99X for the Zacks sector and 12.12X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 9.9X and as low as 7.2X, with a 5-year median of 8.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$50 price target reflects 15.34X trailing 12-month book value.

The table below shows summary valuation data for BCE

Valuation Multiples - BCE					
		Stock	Sub-Industry	Sector	S&P 500
EV/EBITDA TTM	Current	8.21	11.14	17.99	12.12
	5-Year High	9.87	14.75	18.07	12.86
	5-Year Low	7.2	7.13	10.62	8.48
	5-Year Median	8.16	11.22	12.97	10.67
P/B TTM	Current	3.26	3.08	4.1	4.5
	5-Year High	4.41	4.8	4.1	4.5
	5-Year Low	2.66	1.81	2.01	2.85
	5-Year Median	3.49	2.43	2.55	3.61
P/E F12M	Current	16.53	10.89	13.64	18.97
	5-Year High	18.37	17.71	15.33	19.34
	5-Year Low	13.33	10.67	12.61	15.17
	5-Year Median	16.46	15.21	13.68	17.44

As of 01/16/2020

## Industry Analysis Zacks Industry Rank: Bottom 22% (199 out of 254)



## Top Peers

Cincinnati Bell Inc (CBB)	Neutral
Deutsche Telekom AG (DETEGY)	Neutral
Swisscom AG (SCMWY)	Neutral
Shenandoah Telecommunications Co (SHEN)	Neutral
Telefonica SA (TEF)	Neutral
Telecom Italia S.P.A. (TIIAY)	Neutral
Telstra Corp. (TLSYY)	Neutral
TELUS Corporation (TU)	Neutral

Industry Comparison Industry: Diversified Communication Services				Industry Peers		
	BCE Neutral	X Industry	S&P 500	CBB Neutral	TEF Neutral	TU Neutral
<b>VGM Score</b>	<b>C</b>	-	-	<b>C</b>	<b>C</b>	<b>B</b>
Market Cap	42.66 B	9.69 B	24.61 B	561.69 M	35.20 B	23.54 B
# of Analysts	8	1	13	1	2	8
Dividend Yield	5.11%	0.00%	1.74%	0.00%	4.87%	4.50%
<b>Value Score</b>	<b>C</b>	-	-	<b>C</b>	<b>A</b>	<b>B</b>
Cash/Price	0.02	0.09	0.04	0.01	0.37	0.01
EV/EBITDA	8.94	7.12	14.24	8.11	8.33	9.01
PEG Ratio	4.74	1.79	2.07	NA	0.97	2.50
Price/Book (P/B)	3.26	2.06	3.38	NA	1.25	2.85
Price/Cash Flow (P/CF)	7.67	6.21	13.75	2.79	6.30	7.71
P/E (F1)	16.61	16.01	19.09	NA	8.86	16.01
Price/Sales (P/S)	2.37	1.05	2.68	0.36	0.64	2.13
Earnings Yield	6.04%	6.20%	5.24%	-9.52%	11.21%	6.23%
Debt/Equity	1.30	0.88	0.72	-7.53	2.11	1.49
Cash Flow (\$/share)	6.15	2.79	6.94	3.99	1.08	5.05
<b>Growth Score</b>	<b>C</b>	-	-	<b>B</b>	<b>C</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	-0.55%	-0.55%	10.56%	NA	2.14%	1.45%
Proj. EPS Growth (F1/F0)	6.75%	9.65%	7.57%	17.19%	59.38%	11.57%
Curr. Cash Flow Growth	4.14%	-4.22%	14.73%	0.30%	20.62%	5.20%
Hist. Cash Flow Growth (3-5 yrs)	0.57%	-1.64%	9.00%	2.16%	-2.35%	0.13%
Current Ratio	0.60	0.86	1.24	0.75	0.88	0.80
Debt/Capital	51.35%	50.85%	42.99%	NA	67.84%	59.79%
Net Margin	12.61%	7.54%	11.14%	-4.92%	4.03%	11.91%
Return on Equity	18.75%	12.43%	17.16%	NA	14.38%	16.54%
Sales/Assets	0.40	0.49	0.55	0.58	0.40	0.42
Proj. Sales Growth (F1/F0)	1.99%	0.89%	4.16%	0.28%	-0.30%	6.30%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>F</b>	<b>F</b>	<b>B</b>
Daily Price Chg	0.79%	0.12%	0.89%	0.63%	1.04%	0.85%
1 Week Price Chg	0.94%	0.00%	0.39%	3.47%	-3.39%	-0.54%
4 Week Price Chg	1.75%	0.71%	2.65%	48.73%	-5.96%	1.72%
12 Week Price Chg	1.18%	3.06%	7.55%	112.60%	-14.29%	10.96%
52 Week Price Chg	12.70%	0.58%	22.12%	27.46%	-21.98%	12.69%
20 Day Average Volume	642,637	46,373	1,536,375	1,311,861	1,252,930	304,461
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.04%	0.00%	0.00%	-25.44%	-1.92%	0.00%
(F1) EPS Est 12 week change	0.71%	-0.95%	-0.40%	-63.71%	-2.75%	2.53%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	NA

---

## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

---

### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	C
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

---

### Disclosures

**This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page.** Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.