

BCE Inc. (BCE)

\$48.55 (As of 02/14/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/06/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM: C

Value: C

Growth: B

Momentum: F

Summary

BCE reported mixed fourth-quarter 2019 results wherein the top line surpassed the Zacks Consensus Estimate but the bottom line missed the same. Bell announced its first 5G network equipment supplier agreement with Nokia. It aims to deliver initial 5G service in urban centers across Canada as smartphones come to market in 2020. Bell is bringing direct fiber links to more than 200,000 residential and business locations in the City of Hamilton, and continues to expand the reach of its fiber network in smaller centers. 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 put strain on margins.

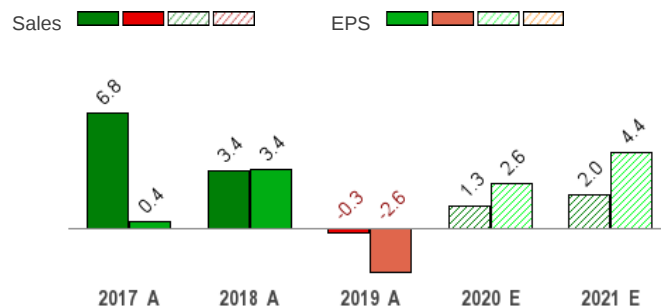
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$49.58 - \$43.03
20 Day Average Volume (sh)	632,702
Market Cap	\$43.9 B
YTD Price Change	4.8%
Beta	0.36
Dividend / Div Yld	\$2.52 / 5.0%
Industry	Diversified Communication Services
Zacks Industry Rank	Bottom 33% (171 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.9%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-5.3%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	18.4
P/E F1	17.9
PEG F1	5.1
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					18,655 E
2020	4,336 E	4,550 E	4,546 E	4,805 E	18,285 E
2019	4,313 A	4,433 A	4,533 A	4,785 A	18,059 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.83 E
2020	\$0.60 E	\$0.73 E	\$0.72 E	\$0.67 E	\$2.71 E
2019	\$0.58 A	\$0.70 A	\$0.69 A	\$0.67 A	\$2.64 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 02/14/2020. The reports text is as of 02/18/2020.

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.

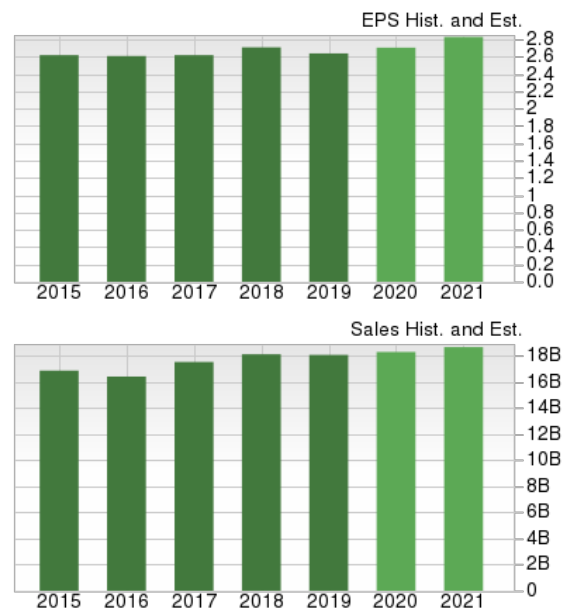
BCE's wholly-owned subsidiary Bell Canada operates the company's wireline (Bell Wireline) and wireless (Bell Wireless) businesses, Bell Media as well as the satellite TV operation, known as ExpressVu. Bell Canada is the largest local exchange carrier in Ontario and Quebec. The company provides wireless 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 (48.2% of total operating revenues in fourth-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 (38.3%): Offers wireless voice and data communications products and services to residential, small and medium businesses and large enterprise customers across Canada.

Bell Media (13.5%): 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:

- ▲ As part of its mobile 5G strategy, Bell has announced its first 5G network equipment supplier agreement with long-time partner Nokia. Bell aims to deliver initial 5G service in urban centers across Canada as smartphones come to market in 2020, and will continue to enhance 5G access speeds, capacity and coverage as additional 5G wireless spectrum, including in the 3.5 GHz band, becomes available this year through the federal government's spectrum auction process. As part of its fiber to the premises (FTTP) expansion into the populous 905 region surrounding Toronto, Bell is bringing direct fiber links to more than 200,000 residential and business locations in the City of Hamilton. The company also continues to expand the reach of its fiber network in smaller centers, including Northern Manitoba to about 2,800 locations in the City of Flin Flon.
- ▲ 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. Bell Media's Crave is currently a bilingual TV and streaming service offering more than 6,000 hours of exclusive francophone content from Crave and Super Écran as well as French-language versions of Showtime and HBO programming.
- ▲ 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 provided its financial targets for 2020 in accordance with IFRS 16 accounting standards. It expects revenues to grow between 1% and 3%. While adjusted EBITDA is expected to rise 2-4%, adjusted EPS is expected between C\$3.50 and C\$3.60. Free cash flow is estimated to grow in the range of 3-7%.
- ▲ 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 Q4 Earnings Lag Estimates, Revenues Beat on Segment Strength

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

Net Income

Quarterly net earnings increased 10.9% year over year to C\$672 million or C\$0.74 per share. Earnings were driven by strong growth in adjusted EBITDA, decreased severance, acquisition and other costs, and lower other expenses due to decline in non-cash media asset impairment charges. However, the momentum was partly offset by increased depreciation and amortization, and higher finance costs. For 2019, net earnings were C\$3,040 million or C\$3.37 per share compared with C\$2,785 million or C\$3.10 per share in 2018.

Fourth-quarter adjusted net earnings came in at C\$794 million (\$601.5 million) or C\$0.88 (67 cents) per share compared with C\$794 million or C\$0.89 per share in the prior-year quarter, reflecting higher outstanding shares. The bottom line missed the Zacks Consensus Estimate by 2 cents.

Revenues

The Canadian telecommunications company's quarterly total operating revenues increased 1.6% year over year to C\$6,316 million (\$4,784.7 million). This was led by healthy top-line growth at Bell Wireless and Bell Media that resulted in higher overall service revenues. Service revenues grew 0.9% to C\$5,276 million on wireless, Internet and IPTV subscriber base growth. Product revenues were up 5.7% to C\$1,040 million, driven by increased wireless transaction volumes and a greater sales mix of higher-value smartphones. The top line surpassed the consensus estimate of \$4,782 million. For 2019, revenues increased 2.1% year over year to C\$23,964 million.

Quarterly Segment Results

Revenues at **Bell Wireless** increased 3.6% year over year to C\$2,493 million (\$1,888.6 million). Service revenues improved 1.6% to C\$1,619 million, driven by subscriber base growth and higher revenue contribution from prepaid services. Product revenues increased 7.4% to C\$874 million supported by higher sales mix of premium smartphones and higher-value rate plans.

Revenues at **Bell Wireline** remained almost flat year over year at C\$3,138 million (\$2,377.2 million). Higher Internet and IPTV revenues was offset by lower voice revenues from traditional NAS and long distance services, the impact of acquisition and retention discounts on residential service bundles to match aggressive competitor promotions, and lower TV pay-per-view revenues compared with last year. Service revenues were up 0.1% to C\$2,969 million, while product revenues declined 0.6% to C\$169 million.

Bell Media generated revenues of C\$879 million (\$665.9 million), up 3.4% year over year, led by higher revenues from Crave subscriber growth and contract renewals with TV distributors. Advertising revenues were stable as increases in entertainment, sports and news specialty services and at Astral out of home were offset by soft conventional TV and radio performance.

Other Details

Adjusted EBITDA was C\$2,508 million, up 4.8%, driven by increase of 7.4% in wireless, 1.5% in wireline and 16.5% in media. Adjusted EBITDA margin improved to 39.7% from 38.5%, backed by flow-through of service revenue growth, increasing broadband Internet scale and ongoing cost discipline as reflected in a 0.3% reduction in total operating costs.

Cash Flow & Liquidity

In 2019, BCE generated C\$7,958 million of cash from operating activities compared with C\$7,384 million in 2018. The increase was mainly due to adjusted EBITDA growth and lower income tax. Free cash flow for the same period was C\$3,818 million compared with C\$3,567 million in 2018, driven by higher cash flows from operating activities (excluding acquisition and other costs paid). As of Dec 31, 2019, the company had C\$145 million (\$111.4 million) in cash and equivalents with C\$22,415 million (\$17,218.6 million) of long-term debt compared with the respective tallies of C\$425 million and C\$19,760 million a year ago.

2020 Outlook

BCE has provided its financial targets for 2020 in accordance with IFRS 16 accounting standards. The company expects revenues to grow between 1% and 3%. While adjusted EBITDA is expected to rise 2-4%, adjusted EPS is expected between C\$3.50 and C\$3.60. Free cash flow is estimated to grow in the range of 3-7%.

Conversion rate used:

C\$1 = \$0.757560 (period average from Oct 1, 2019 to Dec 31, 2019)

C\$1 = \$0.768174 (as of Dec 31, 2019)

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	0.07%
EPS Surprise	-2.90%
Quarterly EPS	0.67
Annual EPS (TTM)	2.64

Recent News

On Feb 11, 2020, BCE's wholly owned subsidiary, Bell Canada, announced that it is set to introduce the first 5G-capable smartphone in the country to supplement its nationwide launch of the service. The company announced that Samsung Galaxy S20 5G, Galaxy S20+ 5G and Galaxy S20 Ultra 5G devices will be made available through its offline stores and corporate website, with the first product delivery scheduled in the first week of March. The Samsung 5G mobile devices are likely to offer customers faster download speed and seamless transfer of data. Becoming the first wireless service provider to officially offer 5G smartphones to local customers is likely to provide competitive advantage to Bell Canada, which operates BCE's wireline (Bell Wireline) and wireless (Bell Wireless) businesses.

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 11.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 30.2% over the past year, but stocks in the Zacks Utilities sector are up 3.1% in the same time frame.

The S&P 500 Index is up 20.7% in the past year.

The stock is currently trading at 8.51X trailing 12-month EV/EBITDA, which compares to 11.15X for the Zacks sub-industry, 19.12X for the Zacks sector and 12.31X 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 \$51 price target reflects 15.36X 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	8.51	11.15	19.12	12.31
	5-Year High	9.87	14.75	19.12	12.85
	5-Year Low	7.2	7.13	10.68	8.47
	5-Year Median	8.16	11.25	13.07	10.7
P/B TTM	Current	3.32	3.1	4.32	4.68
	5-Year High	4.41	4.8	4.32	4.68
	5-Year Low	2.66	1.81	2.02	2.85
	5-Year Median	3.47	2.44	2.58	3.62
P/E F12M	Current	17.89	11.1	14.5	19.35
	5-Year High	18.37	17.71	15.36	19.35
	5-Year Low	13.33	10.67	12.58	15.18
	5-Year Median	16.47	15.21	13.84	17.47

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (171 out of 255)



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. (TIAY)	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
VGM Score	C	-	-	A	B	D
Market Cap	43.88 B	9.47 B	24.61 B	646.90 M	35.25 B	24.52 B
# of Analysts	8	1	13	1	3	8
Dividend Yield	4.97%	0.00%	1.78%	0.00%	4.86%	4.33%
Value Score	C	-	-	C	A	C
Cash/Price	0.00	0.07	0.04	0.01	0.37	0.01
EV/EBITDA	8.52	7.24	14.06	8.38	8.33	9.26
PEG Ratio	5.12	1.52	2.09	NA	1.01	2.65
Price/Book (P/B)	3.32	1.97	3.29	NA	1.26	2.97
Price/Cash Flow (P/CF)	7.56	6.03	13.65	3.21	6.31	8.03
P/E (F1)	17.92	16.29	19.21	NA	9.43	16.80
Price/Sales (P/S)	2.43	1.06	2.70	0.42	0.64	2.21
Earnings Yield	5.58%	5.94%	5.19%	-8.26%	10.60%	5.94%
Debt/Equity	1.28	0.88	0.71	-7.53	2.11	1.49
Cash Flow (\$/share)	6.42	2.79	6.92	3.99	1.08	5.05
Growth Score	B	-	-	A	C	D
Hist. EPS Growth (3-5 yrs)	-0.15%	-0.15%	10.85%	NA	2.14%	1.45%
Proj. EPS Growth (F1/F0)	2.51%	11.47%	7.17%	30.72%	57.66%	9.72%
Curr. Cash Flow Growth	5.00%	-4.22%	8.56%	0.30%	20.62%	5.20%
Hist. Cash Flow Growth (3-5 yrs)	2.41%	-1.64%	8.36%	2.16%	-2.35%	0.13%
Current Ratio	0.56	0.80	1.23	0.75	0.88	0.80
Debt/Capital	51.01%	48.39%	42.91%	NA	67.84%	59.79%
Net Margin	12.84%	7.36%	11.81%	-4.33%	4.03%	11.92%
Return on Equity	18.85%	11.52%	16.86%	NA	14.38%	16.40%
Sales/Assets	0.40	0.48	0.54	0.58	0.40	0.41
Proj. Sales Growth (F1/F0)	1.55%	0.00%	3.85%	-0.12%	-1.21%	6.65%
Momentum Score	F	-	-	C	C	F
Daily Price Chg	0.37%	0.00%	0.06%	-1.53%	0.74%	-1.36%
1 Week Price Chg	2.46%	0.00%	2.47%	-5.91%	0.45%	2.24%
4 Week Price Chg	2.86%	-1.77%	0.59%	15.17%	0.15%	4.05%
12 Week Price Chg	1.04%	-0.00%	6.98%	117.83%	-8.24%	7.99%
52 Week Price Chg	12.85%	3.72%	16.62%	46.46%	-18.49%	15.00%
20 Day Average Volume	632,702	44,767	2,020,569	896,628	1,298,557	484,270
(F1) EPS Est 1 week change	0.45%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.28%	0.00%	-0.05%	0.00%	-5.88%	0.26%
(F1) EPS Est 12 week change	-5.49%	-1.18%	-0.17%	-54.18%	-7.30%	-1.16%
(Q1) EPS Est Mthly Chg	-16.67%	0.00%	-0.24%	0.00%	NA	NA

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	B
Momentum Score	F
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.