

BCE Inc.

4Q23 Wrap: Restructuring costs and working capital stress FCF outlook

Reiterate Rating: NEUTRAL | PO: 58.00 CAD | Price: 53.07 CAD

FCF down on restructuring, interest, and working capital

4Q23 results were in-line with forecast but free cash flow guidance disappointed. The market was expecting strong '24E FCF growth from higher adjusted EBITDA and sharply lower capex. Instead, the mid-point of the guide signals a \$225mn FCF contraction. This is primarily driven by 1x severance payments related to an unexpected workforce restructuring, unexpected working capital headwinds, and higher cash interest costs (these were expected). BCE also announced a smaller than typical dividend increase (3.1% vs. BofAe @ 5.0%) and would again pay more in dividends than it generates in free cash flow with limited visibility on when or how this situation could materially reverse.

Regulatory climate blamed for lower capex investment

Management highlighted on the earnings call how regulatory uncertainty, particularly around fiber resale, is impacting capital allocation to new investment. Capital intensity guidance is 16.5% or less, which is down from 18.6% in 2023 (21.2% in 2022). Within its 16.5% guidance, BCE is dialing back its fiber investment and directing more to digital transformation efforts to shrink its cost structure. As these efforts progress, we expect BCE to continue workforce reductions and growing customer self-serve and self-install.

Underlying wireless and broadband demand is stable

Wireless churn was higher than forecast but consistent with what peers have reported thus far. Wireless post-paid subscriber growth was lower than forecast but remains strong and broadband net additions were in-line with expectations. Encouragingly, wireless ARPU increase y/y by 0.4% to \$58.71, beating Street expectations.

Reiterate Neutral and lower PO to C\$58

We reiterate our Neutral rating. We are lowering our target multiple from 8.5x 2024E adj. EBITDA to 8.0x as we roll our estimates forward to 2025E. Our new multiple is a slight discount to BCE's five-year historical average multiple of 8.3x. We believe the lower multiple reflects the company's updated FCF outlook relative to prior expectations. Our new price objective is C\$58 (from C\$62).

Estimates (Dec) (C\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.35	3.20	2.99	3.17	3.43
EPS Change (YoY)	5.0%	-4.5%	-6.6%	6.0%	8.2%
Consensus EPS (Bloomberg)			3.20	3.37	3.57
DPS	3.68	3.82	3.99	4.11	4.23
EPS (BCE - C\$)	3.35	3.20	2.99	3.17	3.43
DPS (BCE - C\$)	3.68	3.82	3.99	4.11	4.23
Valuation (Dec)					
P/E	15.8x	16.6x	17.7x	16.7x	15.5x
Dividend Yield	6.9%	7.2%	7.5%	7.7%	8.0%
EV / EBITDA*	8.7x	8.5x	8.3x	8.0x	7.8x
Free Cash Flow Yield*	6.7%	7.0%	6.5%	7.5%	8.0%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 9. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 08 February 2024 05:41PM EST

08 February 2024

Equity

Key Changes

(C\$)	Previous	Current
Price Obj.	62.00	58.00
2024E Rev (m)	25,125.8	24,919.2
2025E Rev (m)	25,811.1	25,647.9
2026E Rev (m)	26,214.3	26,086.7
2024E EPS	3.21	2.99
2025E EPS	3.51	3.17
2026E EPS	3.65	3.43
2024E DPS	4.06	3.99

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Stock Data

Price (TOR / NYS)	53.07 CAD / 37.95 USD
Price Objective	58.00 CAD / 43.00 USD
Date Established	8-Feb-2024 / 8-Feb-2024
Investment Opinion	A-2-7 / A-2-7
52-Week Range	49.57 CAD - 65.66 CAD
Market Value (mn)	48,414 CAD
Free Float	99.6%
Average Daily Value	141.83 USD
Shares Outstanding (mn)	912.3 / 912.3
BofA Ticker / Exchange	YBCE / TOR
BofA Ticker / Exchange	BCE / NYS
Bloomberg / Reuters	BCE CN / BCE.TO
ROE (2024E)	13.8%
Net Dbt to Eqty (Dec-2023A)	147.7%

ESGMeterTM

High

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iQprofileSM BCE Inc.

iQmethodSM – Bus Performance*

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	7.1%	6.5%	7.1%	7.3%	7.4%
Return on Equity	13.4%	13.6%	13.8%	15.6%	17.8%
Operating Margin	76.7%	77.8%	76.3%	78.5%	78.7%
Free Cash Flow	3,232	3,365	3,154	3,650	3,873

iQmethodSM – Quality of Earnings*

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.7x	2.7x	2.7x	2.7x	2.6x
Asset Replacement Ratio	1.4x	1.2x	1.1x	1.1x	1.1x
Tax Rate	24.8%	30.0%	25.0%	27.0%	27.0%
Net Debt-to-Equity Ratio	122.7%	147.7%	165.8%	180.4%	190.6%
Interest Cover	4.8x	3.7x	3.2x	3.2x	3.3x

Income Statement Data (Dec)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	24,174	24,673	24,919	25,648	26,087
% Change	3.1%	2.1%	1.0%	2.9%	1.7%
Gross Profit	NA	NA	NA	NA	NA
% Change	NA	NA	NA	NA	NA
EBITDA	10,199	10,417	10,730	11,141	11,383
% Change	3.1%	2.1%	3.0%	3.8%	2.2%
Net Interest & Other Income	(1,583)	(2,176)	(2,309)	(2,041)	(1,913)
Net Income (Adjusted)	3,054	2,923	2,739	2,910	3,156
% Change	5.3%	-4.3%	-6.3%	6.3%	8.4%

Free Cash Flow Data (Dec)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	2,715	2,076	2,348	2,798	3,048
Depreciation & Amortization	4,723	4,918	5,011	4,986	5,028
Change in Working Capital	367	(157)	(410)	(410)	(410)
Deferred Taxation Charge	967	996	852	1,111	1,199
Other Adjustments, Net	(407)	113	(534)	(593)	(674)
Capital Expenditure	(5,133)	(4,581)	(4,114)	(4,242)	(4,319)
Free Cash Flow	3,232	3,365	3,154	3,650	3,873
% Change	1.9%	4.1%	-6.3%	15.7%	6.1%
Share / Issue Repurchase	(84)	(205)	0	0	0
Cost of Dividends Paid	(3,312)	(3,486)	(3,656)	(3,774)	(3,895)
Change in Debt	39	2,691	1,969	900	475

Balance Sheet Data (Dec)

(C\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	149	772	980	1,497	1,690
Trade Receivables	4,138	4,031	4,031	4,031	4,031
Other Current Assets	2,200	3,095	4,285	5,530	6,846
Property, Plant & Equipment	29,256	30,352	29,455	28,711	28,002
Other Non-Current Assets	33,586	33,690	34,690	34,690	34,690
Total Assets	69,329	71,940	73,441	74,459	75,259
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	11,469	12,107	12,401	11,826	12,001
Long-Term Debt	27,783	31,135	32,810	34,285	34,585
Other Non-Current Liabilities	7,562	8,141	9,030	10,178	11,415
Total Liabilities	46,814	51,383	54,242	56,289	58,001
Total Equity	22,515	20,557	19,200	18,170	17,258
Total Equity & Liabilities	69,329	71,940	73,441	74,459	75,259

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Telecom Services-Wireless/Cellular

Company Description

BCE is Canada's largest telco, operating as the incumbent in urban Ontario and Quebec and the Atlantic provinces and nationally in the enterprise, wireless and TV segments. BCE competes in wireline with cable operators (Rogers, Quebecor and Cogeco) and in the enterprise segment with TELUS and MTS. BCE owns CTV, Canada's #1 conventional TV broadcaster and TSN, its #1 sports network.

Investment Rationale

BCE continues to execute well, maintaining high and consistent cash flow margins while gaining market share in wireless, broadband and TV. Revenue growth is positive and accelerating in both wireless and wireline. We believe there is somewhat limited upside potential from the ongoing expansion of its fibre to the home footprint.

Stock Data

Average Daily Volume	3,598,346
Shares / Common - Dual Listed	1.00

Quarterly Earnings Estimates

	2023	2024
Q1	0.85A	0.82E
Q2	0.79A	0.83E
Q3	0.81A	0.74E
Q4	0.76A	0.61E

Key Changes

(C\$)	Previous	Current
Price Obj.	US\$46.00	US\$43.00
2024E EPS	3.21	2.99
2025E EPS	3.51	3.17
2026E EPS	3.65	3.43
2024E DPS	4.06	3.99

Exhibit 1: BCE estimate change summary

We materially lower '24E FCF to reflect restructuring and other cash costs.

(C\$ Millions unless specified)	New 1Q24E	Old 1Q24E	New / old % chg	Y/Y % change	New 2024E	Old 2024E	New / old % chg	Y/Y % change
Revenues								
CTS	5,440	5,511	-1.3%	-3.7%	22,141	22,300	-0.7%	3.9%
Media	788	796	-1.0%	1.0%	3,148	3,193	-1.4%	1.0%
Total Revenues	6,135	6,213	-1.3%	1.3%	24,919	25,126	-0.8%	1.0%
EBITDA								
CTS	2,450	2,487	-1.5%	6.1%	10,030	9,968	0.6%	6.1%
Media	132	136	-2.7%	0.1%	699	710	-1.5%	0.3%
Total EBITDA	2,582	2,623	-1.6%	1.7%	10,730	10,678	0.5%	3.0%
Adj. EPS	0.82	0.87	-6.0%	-3.8%	2.99	3.21	-6.9%	-6.7%
FCF	439	396	10.7%	416.1%	2,925	3,878	-24.6%	-7.0%
EBITDA %	42.1%	42.2%	-0.3%		43.1%	42.5%	1.3%	
Key Performance Indicators:								
Wireless								
Postpaid net adds (000)	39	35	12.5%		384	350	9.6%	
Prepaid net adds (000)	-16	-16	0.0%		-15	-13	12.2%	
Postpaid churn	1.00%	1.04%	-3.8%		1.11%	1.12%	-0.6%	
Blended ARPU	58.56	58.27	0.5%		59.25	58.98	0.5%	
Wireline								
High-speed Internet	28	28	0.0%	1.8%	189	104	81.5%	1.1%
IPTV	32.0	32.0			149.0	149.0		

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

BCE Inc. (YBCE / BCE)

Our \$58 (US\$43) price objective is based on an 8.0x forward (2025E) EV/EBITDA multiple. Over the last 5-years, BCE has traded at an average multiple of 8.3x. Our multiple is a slight discount to BCE's 5-year historical average of 8.3x and we believe it reflects the company's updated FCF outlook relative to prior expectations.

Downside (upside) risks to our price objective are multiple contraction (expansion) related to competitive and regulatory concerns in wireless, weaker (stronger)-than expected revenue growth due to economic and competitive pressures and accelerating wireless/wireline substitution, slower (faster)-than expected progress in cost reduction and a reversal (continuation) of the continuing P/E multiple expansion.

Analyst Certification

I, David W. Barden, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

North America - Telecom Services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	American Tower Corp.	AMT	AMT US	David W. Barden, CFA
	AT&T Inc.	T	T US	David W. Barden, CFA
	Cogent	CCOI	CCOI US	David W. Barden, CFA
	Digital Realty Trust Inc	DLR	DLR US	David W. Barden, CFA
	Dycom Industries, Inc.	DY	DY US	Alexander Waters
	Equinix, Inc.	EQIX	EQIX US	David W. Barden, CFA
	Quebecor Inc.	YQBRB	QBR/B CN	Matthew Griffiths, CFA
	Rogers Communications	RCI	RCI US	David W. Barden, CFA
	Rogers Communications	YRCIB	RCI/B CN	David W. Barden, CFA
	TELUS Corporation	YT	T CN	David W. Barden, CFA
	TELUS Corporation	TU	TU US	David W. Barden, CFA
	T-Mobile US	TMUS	TMUS US	David W. Barden, CFA
NEUTRAL				
	BCE Inc.	YBCE	BCE CN	David W. Barden, CFA
	BCE Inc.	BCE	BCE US	David W. Barden, CFA
	Crown Castle Inc	CCI	CCI US	David W. Barden, CFA
	SBA Communications Corporation	SBAC	SBAC US	David W. Barden, CFA
	Verizon Communications Inc.	VZ	VZ US	David W. Barden, CFA
UNDERPERFORM				
	Cogeco Communications Inc.	YCCA	CCA CN	Matthew Griffiths, CFA
	Lumen Technologies Inc.	LUMN	LUMN US	David W. Barden, CFA
	Uniti Group Inc	UNIT	UNIT US	David W. Barden, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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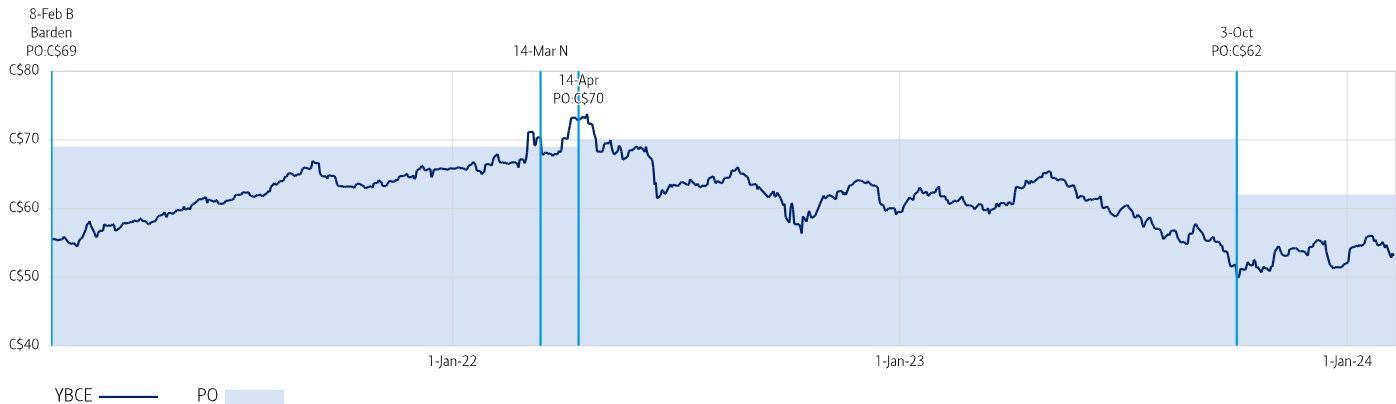
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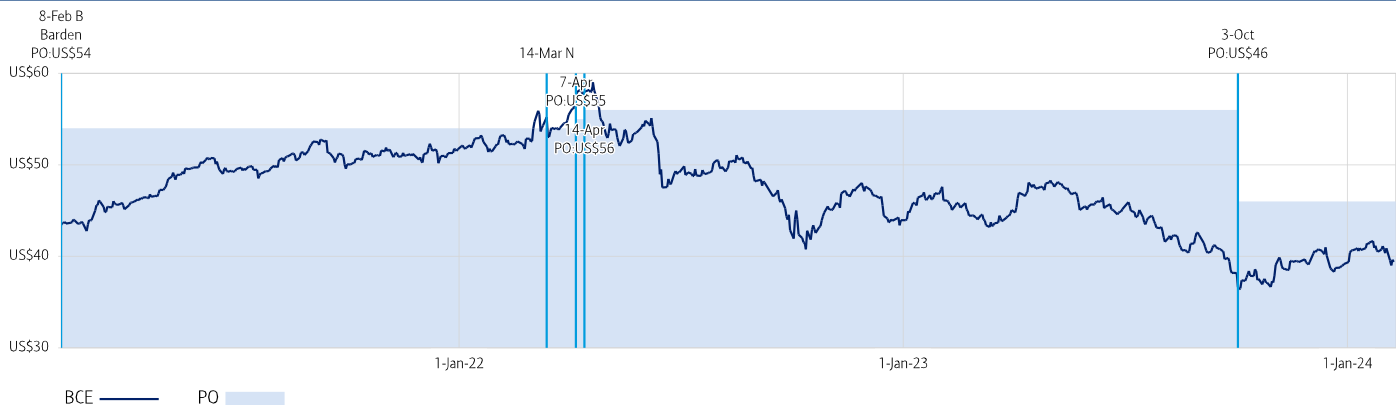
BCE Inc. (YBCE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

BCE Inc. (BCE) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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