

BCE Inc.

4Q23 Preview: BCE reports Feb 8, BMO; Call @ 8:00AM ET

Maintain Rating: NEUTRAL | PO: 62.00 CAD | Price: 53.37 CAD

Consumer strength partially offset by Business headwinds

We maintain our Neutral rating on BCE shares heading into 4Q23 results. BCE's business mix is more heavily weighted to slower growing businesses which results in slower overall growth and deleveraging. Operationally, we expect the core Consumer wireless and broadband businesses within the CTS segment to post solid subscriber growth. As BCE's fiber footprint expands, the growth in FTTH subscribers will increasingly outpace legacy DSL subscriber losses to cable.

Free cash flow guide to benefit from lower capex

BCE will share 2024 guidance when it reports 4Q results. We forecast revenue and adjusted EBITDA growth at a similar level to 2023, at 2.2% and 2.9% respectively. Subscriber growth will again be the main driver of revenue. We will look for BCE to discuss opportunities to reduce costs and how cost cutting is a path to accelerate adjusted EBITDA growth in the coming year. We expect a purposeful, material reduction in capex in 2024 due to regulatory uncertainty. We forecast capital intensity of 16.2%, down from a forecast 19% in 2023, which represents a \$0.6bn y/y decline. We forecast a 20% y/y increase in FCF compared to the 2023 range of 2-10%.

Exhibit 1: Estimate summary.

4Q23 adj. EBITDA \$2.6bn (BofA) in-line with the Street

	4Q23E Cons.	4Q23E BofA	Growth BofA y/y%	2023E Cons.	2023E BofA	Growth BofA y/y%
Consolidated						
Revenue (C\$mn)	6,473	6,462	7.3%	24,673	24,662	2.0%
Adjusted EBITDA (C\$mn)	2,567	2,560	-1.1%	10,415	10,410	2.1%
Adjusted EPS (C\$/sh)	0.74	0.78	-11.5%	3.18	3.22	-3.8%
CTS						
Revenue (C\$mn)	5,735	5,717	5.8%	21,915	21,899	2.8%
Wireless Serv rev (C\$mn)	1,802	1,796	2.1%	7,119	7,113	4.3%
Adj. EBITDA (C\$mn)	2,424	2,418	0.5%	8,918	9,719	2.8%
Post-paid net adds ('000)	137	140	-16.6%	425	437	-0.5%
Broadband net adds ('000)	57	50	-44.2%	192	182	-10.0%
Post-paid churn (%)	1.27	1.25	38.9%	1.03	0.99	7.7%
Blended ARPU (C\$/mth)	58.49	58.43	-3.2%	58.74	58.55	-1.3%
Capex (C\$mn)	1,083	1,046	-18.6%	4,720	4,492	-9.6%
Media						
Revenue (C\$mn)	835	836	16.2%	3,131	3,131	-3.8%
Adj. EBITDA (C\$mn)	140	142	-21.9%	690	691	-7.2%
Capex (C\$mn)	47	79	154.8%	153	185	14.2%

Source: BofA Global Research

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Conference call details

BCE will host a conference call at 8:00AM ET. Dial-in number is 1-844-933-2401.

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Refer to important disclosures on page 3 to 6. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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07 February 2024

Equity

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Stock Data

Price (TOR / NYS)	53.37 CAD / 39.63 USD
Price Objective	62.00 CAD / 46.00 USD
Date Established	3-Oct-2023 / 3-Oct-2023
Investment Opinion	A-2-7 / A-2-7
52-Week Range	49.57 CAD - 65.66 CAD
Market Value (mn)	48,688 CAD
Free Float	99.6%
Average Daily Value	141.52 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 (2023E)	13.5%
Net Dbt to Eqty (Dec-2022A)	122.7%
ESGMeter™	High

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CTS: Communication and Technology Service

FTTH: Fiber to the home

DSL: Digital subscriber line

BMO: Before market open

Price objective basis & risk

BCE Inc. (YBCE / BCE)

Our \$62 (US\$46) price objective is based on an 8.5x forward (2024E) EV/EBITDA multiple. Over the last 5-years, BCE has traded at an average multiple of 8.3x. We think that the small 0.2x multiple premium is justified by BCE's solid execution, wireless growth, expanding FTTP footprint and strong FCF growth, partially offset by headwinds in Business Wireline and Media.

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.

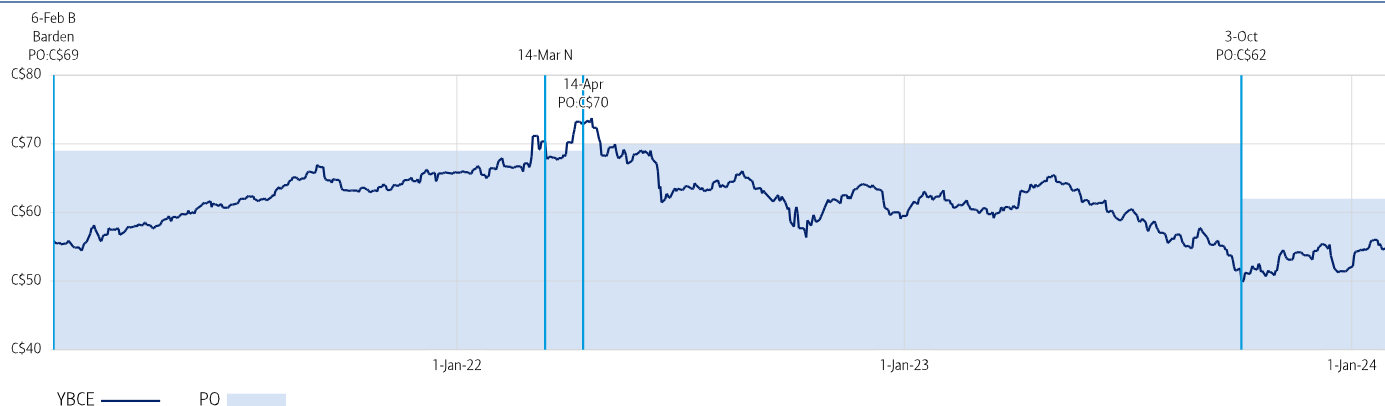
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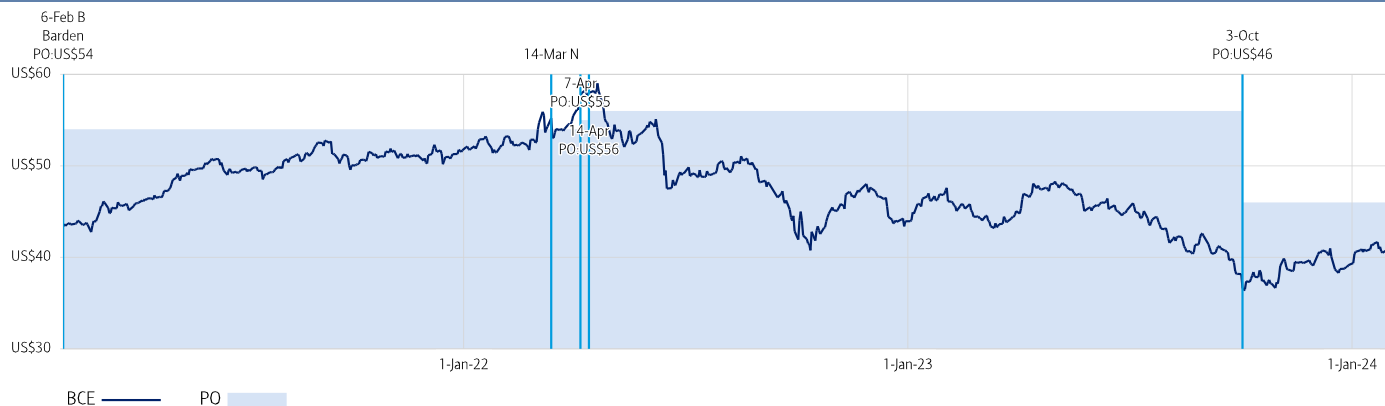
BCE Inc. (YBCE) Price Chart



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

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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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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