3 Reasons to Buy Telus

Description

Few names in the **S&P/TSX Composite Index** have performed as well as **Telus** (TSX: T)(NYSE: TU). Thanks to booming wireless demand, the companies shares are up more than 160% over the past five years.

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It's only natural for most investors to feel like they missed the boat. However, Telus still has plenty of potential upside. Here are three reasons to add this stock to your portfolio even if you missed the rally.

1. Telus is firing on all cylinders

Last quarter, it appeared as if every segment of the company's operations was performing well.

Telus continues to dominate the competition in the wireless space, adding 48,000 new postpaid subscribers in the quarter at a time when providers are aggressively competing for customers. By comparison, **Rogers Communications** (TSX: RCI.B)(NYSE: RCI) added a measly 2,000 postpaid subscribers during the same period. **BCE** (TSX: BCE)(NYSE: BCE) is at least in the same league, through net new additions came in at only 34,000.

The company is also doing a better job at keeping these new customers happy once they're on board. Telus' monthly postpaid churn, a measure of the number of non-prepaid customers leaving the company, came in at 0.99%. This marks the third straight quarter that Telus has kept the figure below 1%, and it's only one of three companies in the entire world that have had post-churn rates below 1%.

Its other divisions are contributing as well. There were 27,000 new television customers and 21,000 new high-speed internet subscribers added in the quarter. That television figure is particularly good, considering that more Canadians are starting to cut the cord and cancel their TV subscriptions.

All of this is translating into exceptional financial results. Operating revenue clocked in at $2.9 billion, 5% higher than last year. After excluding the costs incurred by closing Public Mobile's wireless network, earnings per share were up 10.7% year over year to $0.62 per share, handily beating expectations.

2. This is an irreplaceable asset

What is the most important trait of a wonderful business? A sustainable competitive advantage.

Simply put, a competitive advantage is a set of traits that make a business difficult to compete with. To determine whether or not a business has one, investors should ask themselves this: “If I had a billion dollars, how much could I hurt this company?”

If you gave me a billion dollars and told me to enter the Canadian telecom industry, I couldn’t do it. I wouldn’t stand a chance. There’s no way I could acquire all of the wireless spectrum or construct all of the needed transmission towers. And even if I were able to, the incumbent players could easily undercut my prices, driving me out of business. This means Telus has the wide competitive moat needed to crank out consistent profits (and dividends) year after year.

The strength of this moat was demonstrated last summer when American telecom behemoth **Verizon** (NYSE: VZ) hinted that it might enter the Canadian market. But even with its size and scale, the giant couldn’t make the numbers work. The costs of building a Canadian network are just too high. If even Verizon can’t make the numbers work, smaller rivals don’t stand a chance.

3. The stock’s enormous shareholder yield

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Best of all, investors can count on management to funnel all of those profits straight into their pockets.

Telus has a great track record of rewarding shareholders through dividends and share buybacks. Last quarter the company also bumped up its dividend by 5.6% to $0.38 per share, bumping up the yield on the stock to 3.7%. In the first three months of 2014, Telus has returned a staggering $381 million to shareholders through dividends and repurchases.

And investors can count on more of that to come. Last year, the company announced plans to raise its dividend twice a year at a 10% annual clip and repurchase up to $500 million of its shares annually through 2016.

Of course, Telus isn’t risk-free. Ottawa is hell-bent on increasing competition in the wireless industry. And a new, deep-pocketed wireless competitor could upset the happy balance that already exists. But that’s a chance worth taking given the company’s wide moat, strong growth, and commitment to shareholders.

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