Why an Investment in Telus Corporation Beats Cash in the Bank

Description

Exactly how much cash on hand should an investor have?

The answer to that question can be as varied as investors themselves. Some want very little, choosing to stay fully invested. Others will have something like 20% or 25% of their assets in cash, especially those who think a market downturn is coming. Most investors are somewhere in the middle, choosing to keep approximately 5% of their assets in cash.

Not only does that give the average investor a nice bit of cash if a buying opportunity arises, but it also provides the extra security of having a so-called emergency fund, just in case of something like a car breakdown or a job loss. I'd argue that most investors don't need a large emergency fund, since the kind of people who can save enough capital to invest can generally navigate through tough events with little financial damage, but there's still a case for having cash on hand.

Still, there's one problem when it comes to leaving cash in the bank — it loses value to inflation. Canadian inflation numbers are slightly above 2% annualized, and most short-term GICs or high-interest banking accounts are only paying half that, if you're lucky.

Instead, what investors should do is take the money they'd normally set aside for a rainy day and invest it in a solid, steady performer, one with a sustainable dividend and low volatility. There are many stocks on the Toronto Stock Exchange that qualify, but I think a terrific choice would be **Telus Corporation** (TSX: T)(NYSE: TU). Here's why.

1. Rewarding shareholders

Not only has the company's management committed to raising its dividend twice annually until at least the end of 2015, but it is also aggressively buying back its own shares. Just in the past year, it has eliminated more than 5% of all outstanding shares.

If you combine that with the company's generous 4% yield and the possibility of a 10% dividend hike in 2015, investors are looking at a return in the neighborhood of 9%-10% next year — and that's just from the company wisely investing its earnings. That beats a term deposit, hands down.

2. Great wireless growth

Another advantage to holding Telus over cash in the bank is the company's potential for capital gains. If it keeps up its impressive wireless results, the stock should head higher.

In the company's most recent quarter, wireless revenue grew by over 6%, thanks to attracting new customers, an increase in the average monthly revenue per customer, and the industry's lowest churn rate. Based on that, Telus is very close to passing **BCE Inc**. (TSX: BCE)(NYSE: BCE) as the country's second-largest wireless operator.

Because Telus has the lowest churn rate in the industry, it's able to keep customers on board for much longer, collecting, on average, more than $5,000 over the life of each customer. This is nearly 30% higher than each of its competitors, and a constantly underrated advantage.

3. Television growth

In the company's most recent quarter, it added 23,000 television subscribers, bringing the total up to 865,000.

While this pales in comparison to its competitors, it's still a decent growth area. The company continues to roll out aggressive marketing campaigns to entice new customers to try its TV service. Telus is also investing in increasing the area where its cable TV service is available after mainly sticking to the major centres.

In today's market of folks cutting cable in favor of online alternatives, a 10% annualized growth rate isn't too shabby.

Telus is perhaps the finest operator in the industry. It has made a commitment to returning capital to shareholders, and the stock's beta is just 0.12, meaning it's about as stable as you can get. Risk-averse investors should look at the company's shares as high quality, almost as good as cash in the bank.

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Date
2025/08/28
Date Created
2014/08/13
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