Why Telus Corporation Is a Must-Have for Dividend Investors

Description

For as long as I can remember, Canadians looking for dividend income in the telecommunication sector have always been directed to the same company: **BCE Inc.** (TSX: BCE)(NYSE: BCE), or Bell for those of us with a bit of grey hair.

While the 5% that BCE is currently yielding for shareholders is indeed very attractive, **Telus Corporation** (TSX: T)(NYSE: TU) is a much stronger dividend stock to own for the next 10 years and here's why.

Market share gaina

The Canadian telecommunication sector is a government-made oligopoly. Indeed, the CRTC through its laws makes it almost impossible for any other big players to enter the market. This dynamic has its ups and downs.

On the one hand, consumers are faced with fewer alternatives and often end up paying more than their fair share for services. On the other hand, investors reap the juicy benefit of such little competition with increased profitability from the big three operators.

That being said, in order for any of the telecom giants to increase their revenues, they have to steal market share from each other and Telus is the clear winner. In the last quarter, the company managed to acquire 78,000 new postpaid wireless customers, leaving the rest to both BCE and **Roger Communications Inc.** (TSX: RCI.B)(NYSE: RCI). Those numbers are equivalent to 43% of the new business that went straight to Telus!

Best-in-class customer service

So how did Telus manage to get such a big piece of the pie last quarter? Many factors, of course, but the one that caught my eye is the low churn rate for the period — that is, lost subscribers divided by gained subscribers — of 0.90%. In the telecom world, like in any business, it is much easier and cheaper to retain existing customers than it is to gain new ones. A low churn rate helps ensure steady cash flow and stable margins, both positive for future dividend payments.

Shareholder value creation

Currently, out of three big telecom players Telus is the one with the lowest dividend yield at only 3.9%. At first glance, it might sound contradicting with the basis of this article, but a closer look shows that with an investment horizon of 10 years or more, Telus is definitely the one we want.

In the past three years, Telus increased its dividend by 11% while competitor BCE Inc. managed a 7% increase for the same period. Given the fact that Telus is taking market share from its competitors, we can anticipate a faster increase in the dividend compared to both Rogers and BCE. What is 3.9% right now may well be 6% in a couple of years.

Bottom line

Income investors should look for companies operating in sectors with strong barriers of entry and minimal potential for disruption from external factors. Telus is indeed an amazing dividend-paying stock fitting all the required criteria enumerated above, and in my view, should be a part of any dividend-focused portfolio. That being said, every investor should diversify his holdings in order to mitigate any unforeseen industry catalyst.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:TU (TELUS)
4. TSX:BCE (BCE Inc.)
5. TSX:RCI.B (Rogers Communications Inc.)
6. TSX:T (TELUS)

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