Telus Corporation vs. Rogers Communications Inc.: Which One Should Be in Your Portfolio?

Description

Telecoms are extremely popular with Canadian investors. There are many reasons, including the huge amount of money they've invested in infrastructure over the years, their generous dividend yields, the steady nature of their business, and their tendency to do well no matter what is going on with the underlying economy. Canadians are likely to continue paying for their smartphones, television subscriptions, and Internet no matter how bad the economy looks. We've become addicted to being connected.

But which telecom should be in your portfolio? Let's compare two of Canada's largest against each other, **Rogers Communications Inc.** (TSX: RCI.B)(NYSE: RCI) and **Telus Corporation** (TSX: T)(NYSE: TU) and see which one comes out on top, using three important metrics — value, dividend, and each company's overall outlook.

Value

Over the last year, Rogers has stumbled, at least compared to its competitors. Excluding dividends, shares are down more than 4%, while shares of Telus are up more than 15%, and **BCE Inc.** shares have climbed more than 11%. It hasn't been a great year for Rogers owners.

But there lies the good news for potential shareholders. Since shares have underperformed, Rogers trades at a significant discount to Telus. The company trades at a price-to-earnings ratio of just 14.6 times earnings, a significant discount to its Vancouver based rival, which trades at 17.3 times earnings. Looking at forward P/E ratios, Rogers still trades at a significant discount, coming in at 13.4 times expected 2015 earnings, compared to Telus, which trades at 15 times its projected earnings.

From the multiple paid for earnings standpoint, it's clear Rogers is the better choice.

Dividend

Since most investors hold telecoms at least partly because of their dividends, it's important we look the dividends for each.

Telus, quite frankly, is a dividend machine. The company has increased its quarterly payout twice annually since 2010, increasing it from $0.20 per share per quarter to $0.38 per share. It has also committed to raising its dividend twice per year at least until 2016, and it continues to buy back approximately 3% of its outstanding shares annually. The stock currently yields 3.9%.

But Rogers is no dividend slouch, either. The company has raised its quarterly dividend substantially since 2010 as well, treating shareholders to an annual raise of approximately 7% per year. The company was also aggressively buying back stock, but stopped in 2013 to focus on repaying debt. The stock currently yields 4.3%.

Each company also has a strong payout ratio. Rogers pays out approximately 63% of its earnings in dividends, while Telus pays out 67%.

It's a tough decision, but I have to give the dividend nod to Rogers. Its yield is 10% higher than Telus', and the payout ratio is a little lower, to boot. Still, Telus has a great dividend, and both are very secure.

Outlook

Over the last 12 months, these two companies have been heading in opposite directions.

Telus has been a great performer. It is stealing wireless customers from competitors, keeping those customers, and is arguably the best in the industry at keeping them happy. The company also isn't really feeling the pinch from television subscribers cutting the cord, just because its television service is so young and still growing.

Meanwhile, Rogers has been through a bit of turmoil. It replaced much of the management team, and has struggled to keep wireless customers. Additionally, many say it overpaid for a lucrative piece of wireless spectrum back in February, which left it with more debt than its competitors.

New CEO Guy Laurence is taking steps to correct these problems. They're certainly fixable, but the company's missteps have been enough for it to fall out of favor with investors.

It's simple. From an operational perspective, Telus is looking great, while Rogers is struggling.

Which should you choose?

Personally, I'm partial to Rogers. I like the better dividend yield, the lower P/E ratio, and the underperforming shares. It leads me to believe the company will outperform once it fixes its problems.

But you can't go wrong with either company. They're both terrific choices for your portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

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

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