



BCE Inc. vs. Telus Corporation: Which Company Belongs in Your Portfolio?

Description

Over the years, Canada's telecom sector has been a great spot to put capital to work.

Nothing demonstrates the strength of the sector better than in 2013 when **Verizon** was rumoured to be eying an expansion into Canada by buying either Wind Mobile or Mobilicity. After carefully weighing the pros and cons, the company decided to go in another direction — mainly, away from Canada. The reason? It was just too tough to compete with the current Big 3 operators.

Think about that for a minute. Verizon is one of the biggest telecom providers in the world, and certainly the largest in the United States. Depending on the location, it fights for business with up to half a dozen different rivals. And yet, the company decided that even it couldn't go up against Canada's entrenched telcos.

That strength is why investors should have at least one of Canada's telecoms in their portfolio. What other business is so strong that it can scare off a mammoth competitor? Let's compare **BCE Inc.** ([TSX: BCE](#))([NYSE: BCE](#)) to **Telus Corporation** ([TSX: T](#))([NYSE: TU](#)) to see which one belongs in your portfolio.

Growth

Considering that both companies are in a pretty mature industry, both are still doing a nice job of growing the business.

BCE recently announced it was buying out the 44% of **Bell Aliant** that it didn't already own, paying \$3.95 billion to gain full access to 5.3 million home phone, Internet, and television subscribers in Atlantic Canada, rural Quebec, and rural Ontario. The acquisition is expected to increase the company's revenue by approximately \$2.8 billion and add an additional \$200 million of free cash flow. That's enough to move the needle even for Canada's largest telecom.

Meanwhile, Telus is growing more organically. The company continues to steal wireless customers away from its competitors using a combination of shrewd marketing, effective sales tactics, and stellar customer service. It gained 78,000 postpaid wireless subscribers during its latest quarter, which easily

surpasses its rivals. Additionally, the company's television service is still in its infancy, with an annual growth rate of 16%. That's even more impressive considering how cord cutting is affecting its rivals.

While BCE's acquisition of Bell Aliant is positive, Telus's growth looks to be more sustainable.

Value

Thanks to its shares doing well over the last week, Telus now trades at a price-to-earnings ratio of 17.8 times trailing earnings. Looking at forward earnings, the company trades at 17 times expected 2014 earnings, and 15.7 times estimated 2015 earnings. Earnings are expected to grow 8.4% in 2015.

BCE is a little more expensive, at least currently. Shares currently trade at a P/E ratio of 18.6 times trailing earnings. Analysts expect the company to earn \$3.12 in 2014 and \$3.24 during 2015, putting its forward price-to-earnings ratio at 15.8 for 2014 and 15.2 for 2015. Earnings are only expected to grow 3.8% in 2015.

BCE trades at a slightly lower forward earnings multiple, but that's to be expected once you factor in the lack of growth. Telus is only slightly more expensive but with more than double the projected earnings growth.

Dividend

At the moment, BCE has a more attractive dividend. It currently yields 5%, while Telus only yields 3.75%.

But that doesn't tell the whole story. Telus has had spectacular dividend growth over the last handful of years. Since the end of 2009, Telus has raised its quarterly dividend every six months, going from \$0.2375 per share to \$0.38. Management has promised to continue the streak until at least the end of 2016.

BCE has also done a good job of growing its dividend, but it just can't compete with Telus. BCE's quarterly dividend has gone from \$0.41 per share to \$0.62 per share since the end of 2009, which is still pretty impressive. You know Telus is doing something special when a 50% dividend increase over five years looks poor in comparison.

BCE is a great company. It just looks like Telus is a little better. We've got a third pick I think you're really going to like. Check out our free report below.

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1. NYSE:BCE (BCE Inc.)
2. NYSE:TU (TELUS)
3. TSX:BCE (BCE Inc.)
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