



## Head to Head: BCE Inc. vs. Telus Corporation

### Description

**BCE Inc.** ([TSX: BCE](#))([NYSE: BCE](#)) and **Telus Corporation** ([TSX: T](#))([NYSE: TU](#)) both announced solid third-quarter results, again highlighting their growth potential and attraction as a reliable investments for income seeking investors.

Let's compare the results of the two companies so far this year in order to determine which one is better positioned to reward investors in future.

### Telus leads on operational performance

The main trends were similar for both companies – wireless, high speed internet connections, and television connections increased while landline connections continued to decline. Although BCE has the higher number of total connections, Telus managed to increase connections at a faster pace in the growth categories of wireless, high speed internet, and television and experienced fewer losses in the landline category.

In the highly profitable wireless mobile category, Telus again managed to extract considerably higher average revenue per user of \$62.73 compared to \$59.71 for BCE, had a lower cost per user acquired and experienced a lower customer turnover rate. On the other hand, BCE managed to increase the average revenue per user by almost 5% in the first nine months of the year, demonstrating the additional growth potential should it be able to reach the levels achieved by Telus.

### A draw on financial performance

Revenue and EBITDA growth at Telus was a little better than for BCE while BCE retained its leadership in terms of EBITDA profit margin at 40.5% versus 36.8% at Telus. As a result of an active share repurchase program, Telus managed to increase its earnings per share in the first nine months by 15.4% compared to 7.4% at BCE.

### BCE stronger on cash flow generation

Both companies continued to generate considerable amounts of cash with operating cash flow

generation at BCE 1.6% higher so far in 2014 and with a cash conversion ratio (sales converted into cash) of 30.4%. Telus lagged on both counts with a slight decline in operating cash flow generation and a lower conversion ratio.

Free cash flow (that is operating cash flow minus capital expenditure) at both companies remained robust covering the dividend payments. However, both companies also incurred substantial capital outlays outside of the normal maintenance capital expenditures.

BCE spent \$3.95 billion on the acquisition of the minority owned shares in Bell Aliant, partly financed with BCE shares and partly with \$1 billion of cash. In addition BCE spent \$566 million on the acquisition of 700 MHz wireless spectrum assets resulting in an increase in net debt to \$21 billion (4%) since the start of the year. The debt-to-capital ratio at 58% is relatively high but should decline over time as a result of the increased cash flow from the Bell Aliant acquisition.

Telus also spent \$1.1 billion on the acquisition of spectrum assets earlier this year and completed the acquisition of 2.1% of the outstanding shares valued at \$500 million resulting in an increase of the net debt to \$9.3 billion. The debt-to-capital ratio is now fairly high at 53% compared to 50% last year.

In conclusion, both companies are performing well with no clear leader so far this year. Both also seem to be investing prudently to further enhance growth prospects and investor returns.

### **The main attraction is in the dividend**

The main attraction for many investors in these companies is the consistent and growing dividend payments as well as the attractive yields currently available. Telus increased its dividend payment this year by 12% and by 58% over the past five years while BCE has increased its dividend by 6% this year and has grown the dividend by 56% over the past five years. BCE currently has the higher yield at 4.7% while Telus has a dividend yield of 3.5%.

Both companies are excellent investment candidates for income investors with the potential for further single-digit annual growth in the dividend over the medium term.

### **CATEGORY**

1. Dividend Stocks

### **TICKERS GLOBAL**

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

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