

Telus Corporation Upgraded: Is This a Signal to Buy?

Description

North American telecommunications companies are fast shaping up as some of the best investments growth hungry investors can make. The explosion of the information age has made their products and services indispensable for day-to-day life and business activities. This has seen a number of the major North American telecommunications companies report solid fourth-quarter and full-year 2014 earnings that have triggered a round of analyst upgrades.

One of the latest to be upgraded is Canada's third largest telco **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)). Money manager *Canaccord Genuity* reiterated a "buy" rating for Telus and upgraded it to one of its "top picks."

However, the key questions are what does this mean for investors and should they invest in Telus?

The situation

Telus has built a solid operational base, with 14 million customer connections at the end of the third quarter 2014. One of Telus' key strengths is that over half of its customer connections are made up of wireless connections, which total almost 8 million subscribers. This is because the provision of wireless services is one of the most profitable segments of Canada's telecommunications industry.

These numbers also compare favourably to Canada's other major telcos. Canada's largest provider of communications services, **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)), has 21 million customer connections, of which 8 million are wireless. Meanwhile, **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)) is the largest provider of wireless services in Canada, with 9.5 million wireless connections from its total 15 million connections.

This makes Telus the third largest wireless provider in Canada, but more importantly, it is generating a far higher average revenue per unit (ARPU) than either of its larger competitors.

The company has an ARPU of \$64.51, which is higher than either BCE's \$61.12 or Rogers's \$59.41 while its wireless churn rate of 1.25% is lower than BCE's 1.57% and Rogers's 1.3%. Both of these characteristics highlight that Telus's wireless operations are far more profitable than either of its major competitors, and it has a far higher retention rate.

Going forward

I also expect to see Telus continue to report solid growth in customer connections, with the company investing heavily in its wireless and wireline networks.

For its wireless services, this includes rolling out its 700 MHz spectrum network and implementing programs to improve system resiliency and reliability. These initiatives will also allow Telus to improve its customer service, thus leading to higher retention rates and higher ARPU, which should see profit margins continuing to grow.

Telus is also expanding its fibre optic broadband network. This will see further data connections that should not only offset revenue lost from declining legacy voice calls but actually generate growth in the wireline segment because households and businesses are increasingly dependent on high-speed data services.

More importantly, Telus has a solid balance sheet that is more than capable of supporting further investment in its wireless and wireline networks. Net debt is only two times earnings before interest, taxes, depreciation, and amortization, and it is highly liquid with \$226 million of cash and cash equivalents.

This certainly bodes well for future earnings growth and margins as customer retention and average revenue per connection improve.

Now what?

However, while Telus appears more expensive than rivals BCE and Rogers, its solid balance sheet and strong growth prospects make it an attractive investment. According to *Canaccord Genuity* analyst Dvai Ghose, Telus offers a compelling mix of better fundamentals and stronger growth prospects than BCE and Rogers. I couldn't agree more. Telus offers investors strong growth prospects coupled with a sustainable and tasty 4% dividend yield that will reward investors as they wait for its share price to appreciate.

CATEGORY

1. Investing

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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.)
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