3 Big Reasons to Bet on Telus Corporation

Description

Telus Corporation (TSX:T)(NYSE:TU) is Canada's fastest growing communications company. The firm is outpacing its competitors on a number of key metrics and is now investing in new markets that could drive revenues much higher in the coming years.

Recent analyst reports have suggested that telecom companies are fully valued and investors should move to other sectors. Let's take a look at Telus to see if you should buy, hold, or sell the stock.

1. Earnings

Telus just released its Q4 2014 earnings statement. Quarterly net income rose 7.6% and earnings per share grew 8.5% to $0.51 compared to the fourth quarter of 2013.

The company delivered impressive numbers across both its wireless and wireline operations.

Wireless network revenue saw a year-over-year increase of 8% driven by continued expansion of the user base, higher data revenues, and an expansion of Telus' LTE network coverage. Blended average revenue per unit (ARPU) came in at an industry-high $64.20, which was a 3.8% gain over the same period in 2013. This was the seventeenth consecutive quarter of year-over-year ARPU growth.

A relentless focus on customer service continues to pay off as the company enjoys the lowest postpaid wireless churn rate in the industry. This is a key metric for investors to consider because the average cost of acquisition (COA) per subscriber runs about $400.

Telus added 118,000 net new postpaid wireless subscribers in the fourth quarter, a 21% increase over the same period in 2013. For the full year, the firm signed up a total of 538,000 new postpaid wireless, TV, and high-speed Internet customers.

Wireline EBITDA also increased in the fourth quarter as data service and equipment revenues rose by $60 million or 7.1% compared to Q4 2013.

Telus says overall growth should continue in 2015. Revenue, EBITDA, and EPS are expected to increase by 5%, 7%, and 13% respectively.

2. Dividend growth and share buybacks

Telus pays a dividend of $1.60 per share that yields about 3.7%. The company consistently raises the distribution and is maintaining its objective of increasing the payout by 10% per year through 2016. Telus also has a significant share-repurchase program. In Q4 2014, the company repurchased 2.9 million shares at a cost of $115 million. Telus has increased its dividend 10 times in the past five years.

3. Growth initiatives

Telus has decided to avoid the media game and is focused on building long-term growth through its Telus Health and business services divisions.

Telus Health is the industry-leading provider of secure electronic data management services to pharmacists, physicians, hospitals, insurers, and employers as they strive to manage their operations more efficiently.

The growth potential in this industry is huge and investors could see revenue from this division increase substantially in the coming years.

Telus is also getting in on the game of helping businesses harness the powers of the Internet of Things (IoT). According to an IDC study, only 13% of Canadian businesses are using IoT solutions to improve efficiency in their operations. The Telus IoT Marketplace gives businesses access to turnkey IoT solutions that simplify the complexity of deploying the technology. Investors should keep a close eye on this because Canadian IoT spending is expected to hit $21 billion by 2018.

Should you buy?

Telus isn’t cheap. The stock trades at about 19 times earnings, which is at the high end of its historical range. However, Canadian interest rates are expected to stay low and investors have limited options right now to get dividend growth and capital protection. For conservative dividend investors, I think Telus is a good long-term investment and the company’s health and IoT initiatives could prove to be very lucrative.

CATEGORY

1. Investing

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