



Telus Corporation: Is This Great Company Worth the Inflated Price?

Description

Over the past 12 months in the Canadian telecom industry, there's been one story dominating the headlines. **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)) is absolutely hammering its competition.

The company's success is mostly due to the wireless side. It continues to win customers away from the other two members of the so-called "Big 3", **Rogers Communication Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)) and **BCE Inc** ([TSX:BCE](#))([NYSE:BCE](#)). Telus's success is based on some successful promotions, improvements to its network, and a real effort to improve customer service. I can personally attest to that last point; each time I phoned Telus as a customer was an enjoyable experience. The company has given frontline employees the freedom to offer discounts and incentives, meaning fewer people need to ask for a manager.

And unlike others in the industry, its television service is actually growing — subscribers are up more than 10% over the last year. Borrowing a page from its wireless book, Telus has given away televisions and Xboxes with every subscription, just like it gives away a discounted smartphone when you sign up for a contract. This has been a big hit with customers, and it continues to install the network needed to support television across Alberta and B.C.

The company's results have resulted in a number of dividend hikes over the last few years, as well as a fairly aggressive share buyback program. There aren't many companies that can offer investors a 3.7% yield with annual growth, so income investors are flocking to the stock.

But what if we're looking at Telus all wrong? What if, instead of looking at what's right with the stock, we look at what's wrong?

Admittedly, there isn't much wrong, except for one major thing. On just about every metric, Telus is expensive.

Let's start out with the first thing every investor looks at, the price-to-earnings ratio. Telus is currently trading at a P/E of 19 times earnings, according to **Google** Finance. BCE trades at 18.6 times earnings, while Rogers Communications trades at 17.6 times earnings, easily the cheapest of the bunch.

Let's look at the price-to-sales ratio next. Rogers Communications comes in at 1.86 times sales, BCE is currently trading at 2.2 times sales, and Telus checks in at 2.21 times sales. Keep in mind that BCE acquired Bell Aliant during the summer, and hasn't had its sales for an entire year. Once you factor that in, it's clear Telus is the most expensive on that metric too.

At least from a debt-to-EBITDA ratio, Telus is comparatively cheap. Telus's debt currently stands at 2.37 times EBITDA, compared to BCE which is at 2.42 times EBITDA, and Rogers which is at 3.13 times EBITDA. However, keep in mind that Bell borrowed to fund its Bell Aliant acquisition, while Rogers was very aggressive in last year's spectrum auction, which it has borrowed to pay for.

Next, let's look at the favorite metric for most value investors, the price-to-book ratio. Rogers Communications has a book value of \$10.65 per share, putting it at 4.35 times book value. BCE has a book value of \$17.79 per share, putting it at 3.13 times book value. Telus has a book value of \$12.24 per share, which is 3.57 times its book value. While it's not as expensive as Rogers, it's hard to make an argument that Telus is cheap.

Investors looking for a cheap telecom should move past Telus, and look to the only publicly traded regional player left, **Manitoba Telecom Services Inc** (TSX:MBT). Manitoba Telecom has a price-to-book value ratio of 1.81, a price-to-earnings ratio of just 14.4, a debt-to-EBITDA ratio of 1.58, and a price-to-sales ratio of 1.19. It's clearly the cheapest telecom in Canada, and it comes with takeover potential.

Telus is a great company, firing on all cylinders. It's growing faster than its competitors, and results continue to be outstanding. The only issue is that it's pretty expensive. It's up to you to decide whether you're willing to pay the price for quality. I can see the argument for doing so, but personally, I think I'd prefer one of its cheaper competitors.

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1. Investing

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1. Editor's Choice

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Author

nelsonpsmith

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