3 Reasons to Buy and Hold Telus Corporation

Description

If only every stock was like **Telus Corporation** (TSX:T)(NYSE:TU).

Since I wrote my first column about Telus back in March 2014, shares of the telecom giant have delivered a 15% total return, including dividends. During that time, the company has hiked its distribution by more than 11%!

These are backward-looking numbers, of course. However, there's reason to believe that Telus will continue to post solid returns for shareholders. Now, what the stock does in the short term is anybody's guess, but over the long haul, I expect investors will be rewarded nicely.

Here's why.

1. It has a wide moat

What is the most important trait in a business? A competitive advantage.

To determine whether or not a company has an edge in the marketplace, ask yourself, "If I had a billion dollars, how much could I hurt these guys?" In the case of Telus, you couldn't do much damage.

Let's imagine if you and I wanted to start our own telecom company. Even if we could scrape together a couple billion bucks, we wouldn't stand a chance. On that budget, we couldn't even pay for all of the needed transmission towers or wireless spectrum.

Heck, **Verizon** had tens of billions of dollars in its war chest, and the American telecom giant couldn't make the numbers work for a Canadian expansion.

New competition is unlikely to pose much of a threat to Telus. That should translate into oversized profits (and dividends) for years to come.

2. Excellent customer loyalty

Telus has shown an uncanny ability to retain customers.

Last quarter, the company's monthly postpaid churn rate was just 0.94%, the lowest in North America. In an industry where companies are the frequent target of consumer wrath, Telus's low churn rate sends a positive signal.

Why is this relevant to investors? Firms with loyal customers are better able to pass on higher prices. That usually translates into superior profit margins and strong free cash flows.

That puts Telus in a better position to return money to shareholders.

3. It's a dividend powerhouse

Telus is one of the oldest dividend payers in the country, sending out a cheque to shareholders every year since *1916*.

Think of everything that has happened over that time: wars, recessions, financial crises. Yet through all the ups and downs, the firm never disappointed its loyal investors.

Telus isn't just a solid dividend payer. It's also one of the most predictable. Last year, management pledged to raise the company's dividend twice per year through 2016 at a 10% annual clip. That's a strong vote of confidence in the business.

Of course, you can't cash these dividend hikes just yet. Future payout increases will depend on the company's cash flows and still need to be approved by the board. But executives would not have risked their credibly unless they were sure they could deliver.

Now, all of these points are just common sense. Strong companies with loyal customers that take care of their shareholders should do better over time. It doesn't take an MBA to figure that out.

But while owning stocks like Telus won't impress your friends at the next cocktail party, Telus will give you the best chance of compounding your money over the long haul.

CATEGORY

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2. Investing

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rbaillieul