



3 Reasons Why Manitoba Telecom Services Inc. Is My Favourite Canadian Telecom Stock

Description

When looking at dividend stocks, the telecom sector is always a popular choice. Investors like the sector's generous dividends, large barriers to entry, and the fact that we're all stuck paying at least one of them what we view as an outrageous sum of money each month for our cell phone, Internet, or television programming.

Because they're the biggest, investor attention is often focused on **Telus Corporation**, **Rogers Communications Inc.**, and **BCE Inc.** Between these three Goliaths of the industry, they own more than 90% of Canada's wireless market, and similar percentages of the home phone and Internet markets. Chances are, everyone reading this pays at least one of these companies on a monthly basis.

But what if I told you that there was a telecom that was cheaper than the big three on almost every metric, had a potential catalyst that could drive shares higher, and has carved itself out a nice little niche market? I don't know about you, but that's probably the telecom I'd be interested in.

That stock is **Manitoba Telecom Services Inc.** (TSX:MBT). Here are the three reasons why it's my favourite in the sector.

Valuation

Just about any way you slice it, Manitoba Telecom is cheaper than its peers.

The company's P/E ratio is currently 14.2 compared with Telus, which is at 18.3, BCE, which is at 17.8, and Rogers, which is at 16.5. That's a full 15% lower than the next cheapest in the sector.

Manitoba Telecom earned \$108.6 million in free cash flow in 2014, putting it at approximately 17 times its free cash flow. Telus had a slightly negative free cash flow in 2014, while Rogers trades at 22 times its free cash flow, and BCE trades at 17.9 times its free cash flow.

Plus, Manitoba Telecom has a great balance sheet compared with its peers. The company has a debt-to-equity ratio of 0.83, while Telus, BCE, and Rogers have debt-to-equity ratios of 1.26, 1.34, and 2.85

respectively. BCE's number is a little low, since it doesn't factor in the company's outstanding preferred shares.

I understand wanting to pay up to own quality, but Manitoba Telecom is much cheaper than its rivals.

An underrated moat

Manitoba Telecom might only operate its retail telecom business inside the borders of Manitoba, but it has a pretty great market share there. In fact, it's the leader in every category it has entered, including wireless, home phone, Internet, and television.

Although the company's wireless revenue fell 2.6% to \$365.7 million in 2014, this was mostly due to a decrease in revenues from competitors using its network. In fact, the company slightly grew its wireless customer base last year, even after facing an all-out assault from competitors. The company also saw nice growth in television and Internet, with those parts of the business increasing revenues by 6%.

Manitoba Telecom enjoyed a monopoly status in the province before the provincial government privatized the business in 1997. Because many Manitobans have multiple services with the company, bundling is proving to be popular. This is helping to keep customers.

Potential catalyst

In July, BCE announced it was going to take over the portion of Bell Aliant that it didn't already own. By October, that deal was done.

Investors immediately turned their attention to Manitoba Telecom, assuming it would be next. Shares shot up momentarily on the speculation, before falling again. Shares currently trade hands for 25% less than they did in July, and are currently close to a 52-week low.

This would be a great time for Telus to make a splash and bid for Manitoba Telecom. The geographical reach makes sense, and the company doesn't seem interested in expanding into media properties like its competitors. It could also swallow the company and emerge from the transaction with reasonable debt levels.

Although there is speculation that the company could cut its generous 7% dividend to the 4% range to be more like its competitors, Manitoba Telecom is an interesting stock at today's price. If I was going to buy a telecom stock, it would be this one.

CATEGORY

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