3 Reasons to Prefer Rogers Communications Inc. Over Telus Corporation

Description

Just about every Canadian investor owns at least one of the so-called Big Three in the telecom space.

The reasons are simple: these stocks have a pretty solid competitive advantage. They control more than 80% of Canada's wireless market, with similarly dominant positions in the Internet, cable, and home phone businesses. Most Canadians have at least one monthly bill from these behemoths.

These aren't the kinds of businesses you can just replicate, either. Just on the wireless side of the business, it would take billions in investments just to have a passable coast-to-coast network, let alone building out the infrastructure to support such a business, like retail locations and customer service centres. No wonder **Verizon Communications** decided to avoid Canada completely back in 2013.

But just because the telecoms are great businesses doesn't mean investors should just go and blindly buy them. By being disciplined during the buying process, an investor can all but assure that they'll outperform someone who just simply buys the market leader, no matter the price.

Therefore, it likely comes as no surprise that I prefer **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) over **Telus Corporation** (TSX:T)(NYSE:TU). Here are the three big reasons why.

Valuation

As a value investor, I'm looking to buy high-quality assets at discount prices. Telus is certainly a nice company, but I'm not sure it qualifies as a bargain.

Telus shares currently trade hands for 17.4 times trailing earnings, which is about the same valuation as the TSX Composite. Shares trade at a more reasonable 15.7 times forward earnings based on analysts' expectations for 2015.

Meanwhile, Rogers is cheaper. Shares currently trade hands at 17.2 times trailing earnings, but just 14.7 times projected 2015 earnings.

Those differences in P/E might not look like much on the surface, but think of it this way: if both companies traded at a price-to-earnings ratio of 15.7 a year from now, Rogers's shares would be at $45.69. That's nearly 7% higher than they are today, plus any capital appreciation from the sector in general.

Better dividend

The telecom sector is known for generously paying investors nice dividends, and both Rogers and Telus are no exception. Both stocks yield more than 4%, with Telus coming in at 4.04%, while Rogers is higher, coming in at 4.49%.

Current dividends are one thing, but which has the better dividend growth? In the last year Telus has upped its quarterly payment from $0.38 per share to $0.42, which is an increase of just over 10%. Rogers has also grown the dividend, but only from $0.46 per share to $0.48.

But in the last decade, the contest isn't really close. In 2005 Rogers only paid 5.8 cents per share in dividends. In 2015, it's on pace to pay out $1.92 per share. That's an annual raise for shareholders of 42%. Telus has also rewarded shareholders in the last decade, but only to the tune of 15% per year. Granted, 15% annually is nothing to scoff at, but it pales in comparison to 42%.

Improving operations

There's usually a reason why one peer trades at a lower valuation than the other, and Rogers is no exception. Investors are in love with Telus' great customer retention numbers, which are partially at Rogers' expense.

But Rogers is taking steps to bridge the gap. The company has recently announced plans to simplify its sales process, including cutting back on the number of packages available for customers in its wireless stores. The company is also investing in customer service in an attempt to bridge the gap in quality there between it and Telus.

Rogers also has operational leverage over the longer term with its NHL hockey contract. As the company's channels start getting higher ratings, this will likely translate to higher advertising dollars. It'll also help sell wireless and cable services as well.

Both of these companies are terrific operators, with Telus enjoying a slight edge right now. But Rogers is still Canada's wireless leader, owns some dominant media properties, and is taking steps to improve a few areas where it has dropped the ball. Plus, it's cheaper than Telus, at least from a price-to-earnings perspective. For those reasons, I prefer Rogers.

CATEGORY

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