The Real Reason Telus Corporation Is the Best Telco Stock to Own

Description

When picking stocks, it's important to look at a wide range of financial metrics. Are revenues growing? Is profitability strong? Is the debt load manageable? Are returns high? And so on.

But all too often, other factors tend to be just as important. A perfect example concerns Canada's Big Three telecommunications providers: **BCE Inc.**, **Rogers Communications Inc.,** and **Telus Corporation** (TSX:T)(NYSE:T).

A wide gap in customer complaints…

Every year, the Commissioner for Complaints for Telecommunications Services publishes its annual report, which shows how often Canadians file complaints against each telecom provider. It's a fairly good gauge of how well each provider is treating its customers.

When reading these reports, it's amazing how big a gap there is between the providers. For example, Rogers received 3,803 complaints in the 2012-13 period. Fido, which is owned by Rogers, received 998. This absolutely dwarfed the 883 complaints that Telus received (its low-cost affiliate Koodo received 199).

…leads to a wide gap in performance

Because Telus treats its customers better, fewer have left. Last year a Rogers wireless postpaid subscriber was 37% more likely to cancel than a similar subscriber at Telus. This allowed Telus to steal market share—its wireless revenue grew by 7.5% while Rogers' number was flat.

So, you can guess whose bottom line was stronger. Telus grew its earnings per share by 15% last year, while Rogers' EPS shrunk by 20%. Investors certainly noticed this difference. Telus' stock gained 15% in 2014, while Rogers declined by 7%.

So, what now?

To give Rogers some credit, its customer service has improved dramatically, and total complaints have declined by nearly a third in the last year, coming in at 3,284. Meanwhile BCE's complaints have declined by 7% and totaled 3,651 last year. But both companies remain well behind Telus, which was the target of 653 complaints.

So, Telus still has a big advantage, which is especially important these days. Starting June 3rd, a wave of three-year wireless contracts can be cancelled without charge, giving subscribers more freedom to switch than ever before. This should allow Telus to pick up even more market share.

Do these companies' stock prices factor this in? Well, Telus trades about in line with Rogers on a price-to-earnings basis, and both companies are cheaper than BCE. So, if you're looking for a long-term holding, Telus seems to be the best choice among the Big Three. And it's not because of anything found in the financial statements.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TU (TELUS)
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