3 Reasons to Buy Telus Corporation Over BCE Inc.

Description

Canada's telecoms have been terrific wealth builders for investors over the years.

Warren Buffett likes to encourage investors to put their money to work in companies with a sustainable competitive advantage, which he calls a moat. I'm not sure there's a better moat out there than the telecoms.

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If you gave me $10 billion and told me to build a wireless network that could compete with **Telus Corporation** (TSX:T)(NYSE:TU) or **BCE Inc.** (TSX:BCE)(NYSE:BCE), I'd give the money back and say it couldn't be done. Sure, I could spend it and maybe gain a bit of market share, but it would still be easy for the incumbents to just cut prices and put me out of business.

It isn't just the wireless part of the business which can't be easily replicated. Between the two companies, they have millions of Internet, television, and home phone subscribers. BCE also owns some of Canada's most valuable television and radio stations.

It's easy to make the case to buy shares in one of the telecoms. But which one should you add to your portfolio? Here's why I think Telus is the better choice compared with BCE.

Better growth

Telus is doing a terrific job growing wireless subscribers. In the most recent quarter, it increased wireless revenues by more than 6% using a combination of higher prices and growth in subscribers. It also decreased its churn to an industry-low mark of 0.86%, a result of increased investments in customer service.

Wireless isn't the only growth avenue for Telus. It increased total connections by more than 2%, which helped total revenue increase by more than 5% for the quarter. Telus is even gaining television subscribers by giving subscribers freebies like a new television or a video game system in exchange for signing up for a three-year contract.

BCE is growing as well, just not at the pace of Telus. Total revenue increased just 2% in its most recent quarter, even though it also saw strong growth from the wireless side of the business. BCE has much more established television and home phone divisions, two areas where it's seeing some weakness. BCE is being affected more by cord-cutters than Telus is.

Weakness in media

One of the big differences between BCE and Telus is the former's media assets. It owns television stations like CTV, TSN, and the new video streaming service CraveTV. Telus has yet to get into the media business at all.

Right now, this looks like a smart move for Telus. Media spending is down across the board, with TSN suffering because advertisers are spending money on ads on Sportsnet, its rival station. Revenue for the total media division actually has fallen thus far in 2015 by a little more than 1% compared with last year.

Fortunately for BCE, the media division is just a small part of their business. Still, it's easy to like Telus's non-exposure to the sector, especially during times of weakness.

Dividend growth

Although BCE does have the better current dividend–its yield is 4.6%, compared with Telus's, which is 4.0%–there's still a lot to like about Telus's dividend growth.

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Since the beginning of 2011, BCE has grown the dividend from $0.4925 per share to $0.65. That's a growth rate of just a little under 6% annually, which is about what you'd expect from a mature telecom.

Telus has delivered much better dividend growth. Since 2011, the company has grown the dividend from $0.26 per share to $0.42. That's a dividend-growth rate of 10% per year, which easily trumps BCE's growth.

Management has already said the company intends to hike the dividend again in 2016. With a payout ratio of about 70%, Telus has the flexibility to do it, even if earnings don't quite increase at the same pace.

Both Telus and BCE are great stocks. I just think Telus is a little better.

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nelsonpsmith

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