Is Telus Corporation Still a Safe Bet?

Description

Telus Corporation (TSX:T)(NYSE:TU) dropped 5% after reporting its Q3 earnings results, and investors are wondering if the dividend-growth superstar is finally beginning to stumble.

Let's take a look at the current situation to see if Telus deserves to be in your portfolio.

Earnings growth

Telus delivered Q3 2015 adjusted net income of $398 million, or $0.66 per share. That was good enough for a 3% increase over the same period last year.

Wireless year-over-year network revenues increased by $63 million, or 4% to $1.6 billion. Data revenue jumped by 12% in the quarter, and the company added 69,000 net new wireless subscribers.

Blended average revenue per user (ARPU) rose by 1.1% to $64.22, the 20th consecutive quarter of year-over-year ARPU growth.

The wireline division also delivered solid results. Year-over-year revenue rose $44 million, or 3.3%, on the back of a 12% boost in data revenue. Those gains helped offset the declines in legacy voice and equipment revenue.

Telus added 24,000 net new Internet subscribers and 26,000 Telus TV customers as Canadians continue to migrate to its high-speed offerings. The company is expanding its fibre-to-the-premises program, and investors should see solid Internet and Telus TV growth going forward.

Combined, the wireless and wireline divisions added a total of 119,000 net new customers during the third quarter. That's not bad in a difficult economic environment.

Investments

Telus is spending $4.5 billion in 2015 on capital projects and spectrum acquisitions. It's the highest single-year capital output in the company's history and demonstrates management's commitment to to deliver industry-leading levels of service.

Cash flow, dividends, and share buybacks

The heavy capital program isn't hurting the company's ability to pay dividends. Telus reported Q3 free cash flow of $310 million, a 41% increase over the same period last year.

Telus is increasing the quarterly dividend to $0.44 per share. It is the second increase this year and the 12th hike in the past five years.

The company spent $110 million on share buybacks in Q3, bringing the year-to-date total to $412 million.

Over the past decade Telus has returned $12.2 billion, or about $20 per share, to its stockholders through dividends and share repurchases.

Should you buy?

Telus just announced plans to cut 1,500 jobs and that scared the market, but the sell-off might be overdone.

The staff reductions are simply part of the ongoing process to improve efficiency, and the positions will be eliminated over several quarters, with many coming as early retirements.

Telus continues to see solid subscriber additions and is generating tons of free cash flow. At this point, I think investors should consider picking up the shares on the pullback.

CATEGORY

1. Investing

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1. Editor's Choice

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Author
aswalker