



Should Dividend-Growth Investors Buy Telus Corporation?

Description

Telus Corporation ([TSX:T](#))([NYSE:TU](#)) is one of Canada's best dividend-growth stocks, but a recent pullback in the share price has investors wondering if there is trouble on the horizon.

Let's see if there is reason to be concerned.

Layoff announcement

Telus recently announced plans to cut 1,500 jobs. The move isn't unique in the industry right now, and many of the positions will be eliminated over the course of several quarters with a large number being addressed through early retirements.

Like its peers, Telus is searching for ways to make its operations more efficient, and investors should see the staff reductions in a positive light. The cuts are not a response to weak market conditions or a challenged balance sheet; they are simply part of the ongoing evolution of the company.

Strong earnings

Telus reported Q3 2015 adjusted net income of \$398 million, or \$0.66 per share, up 3% from the same period last year.

Network revenues on the wireless side rose by 4% to \$1.6 billion and data revenue increased 12%. Nearly 70,000 net new customers signed up for wireless subscriptions during the quarter, and the company increased its blended average revenue per user (ARPU) by 1.1% to \$64.44, the 20th consecutive quarterly year-over-year ARPU gain.

Telus is also doing well in its wireline segment. The company added 24,000 net new Internet subscribers in the third quarter and Telus TV customers increased by 26,000. Wireline revenue rose by 3.3% compared with Q3 2014, supported by strong data usage and the popularity of the company's fibre-to-the-premises rollout.

Investing in growth

Telus is shelling out \$4.5 billion this year on spectrum additions and capital projects. The investment is the highest single-year total in the company's history, and investors should feel confident that the money is being spent wisely.

Telus remains committed to maintaining its industry-leading level of customer service and growth initiatives such as the Telus Health division, which could produce a free cash flow windfall in the coming years.

Dividends and share buybacks

Despite the big capital program, Telus is still generating lots of free cash and returning it to shareholders.

Free cash flow in Q3 came in at \$310 million, 41% higher than Q3 2014. The company just increased the quarterly dividend to \$0.44 per share and the new payout offers a yield of 4.2%. The dividend hike was the 12th increase in the past five years.

Telus also returns cash to investors through its share-buyback plan. The company repurchased \$110 million in stock during the third quarter and spent \$412 million on buybacks in the first nine months of the year.

Is Telus still a buy?

The company continues to execute its strategy well and remains one of the top dividend-growth picks in the Canadian market. Investors should view the pullback in the stock as an opportunity to buy.

CATEGORY

1. Dividend Stocks
2. Investing

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