Dividend Investors: Is Telus Corporation Still a Safe Bet?

Description

Telus Corporation (TSX:T)(NYSE:TU) dropped more than 8% on the news that rival **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) is buying Wind Mobile.

Investors fled the stock amid fears that Shaw will be better able to compete with Telus in western Canada. The two companies are already locked in a battle for TV and Internet subscribers. That will extend to mobile customers in late 2016.

Is Shaw's entrance into the mobile game really a big threat to Telus? Probably not.

Let's take a look at Telus to see why the sell-off might be an opportunity for dividend investors to pick up the stock.

Earnings strength and subscriber growth

Telus reported Q3 2015 adjusted net income of $398 million, a 3% gain over the same period in 2015.

Wireless network revenue increased by 4% to $1.6 billion and wireless data revenue jumped 12% in the quarter compared with the same period last year. Across Canada, Telus added about 70,000 net new customers in the quarter, and the company increased its year-over-year quarterly ARPU for the 20th straight reporting period.

Telus is also getting strong results from its wireline operations. The company signed up 24,000 net new Internet customers in Q3 and subscribers to the Telus TV service jumped by 26,000.

Overall wireline revenue rose 3.3% compared with Q3 2014, supported by strong data usage and the success of the company's rollout of fibre to the premises. Impressive growth at the company's Telus Health group also contributed to the revenue gain, and investors should look for the division to generate even better results in the coming years.

Dividend safety

Telus is a cash machine. The company generated free cash flow of $310 million in Q3, 41% higher than the same period last year. Management just raised the payout for the 12th time in the past five years, and there is ample room for more dividend increases in the future.

The quarterly payout of $0.44 per share is very safe and now yields about 4.7%.

The company also rewards investors through its share-buyback program. Telus spent $412 million on share repurchases in the first nine months of 2015.

Should you buy the pullback?

Telus provides the best customer service in the industry and already has attractive mobile pricing. Shaw won't take control of the new mobile assets until late 2016, so Telus has nearly a year to prepare.

Shaw is unlikely to launch a price war with Telus in an effort to steal customers. The main objective for the addition of the mobile business is to offset the loss of cable clients who now prefer to watch TV online. Shaw hopes that offering mobile as a part of an Internet, TV, and mobile phone package will help slow down the exodus of cable and Internet customers, but I don't see Telus being heavily impacted as a result, and certainly not to the extent where $2 billion should be wiped off the value of the company.

Dividend investors should view the Telus sell-off as a holiday gift and buy the stock before it bounces back.

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