You'll Be Kicking Yourself Later if You Don't Buy Telus Corporation Now

Description

Warren Buffett likes to compare the stock market to a manic depressive character named Mr. Market.

Each day, Mr. Market shouts prices he'd be willing to accept for certain stocks. Most of the time investors listen to Mr. Market, but ultimately ignore him. Sometimes, Mr. Market is a little too bullish, and we're happy to let him buy some of our positions. And sometimes we think he's a little too pessimistic, and we start buying from him.

In Canada, I believe the prices quoted by Mr. Market for many of our top stocks are the best value in years. Pressures like crashing commodity prices, a low currency, and poor economic fundamentals are pressuring all sorts of different stocks, even ones that consistently deliver great results.

We don't know how long it'll take before stocks head back up. Heck, we might have even missed the bottom, which is why now is the time to act or else it might be too late to load up on great Canadian companies such as **Telus Corporation** (TSX:T)(NYSE:TU).

Temporary weakness

Over the last three months Telus shares have been pretty weak. They've fallen more than 13% because of a few different factors.

Firstly, the overall stock market declined and took Telus right along with it. Secondly, **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) announced it would be joining Telus in the wireless sector sometime in 2016 when it agreed in December to pay $1.6 billion for Wind Mobile.

Wind has focused its operations on Vancouver, Calgary, and Toronto, gaining market share in these markets by offering a lower-cost solution than the incumbents. Investors are concerned Shaw will use the same strategy to keep expanding in western Canada, which is Telus's home turf. Telus will be forced to cut its prices in response, and price wars are never good for profits.

But I'm not sure it'll play out like that. Shaw has indicated it's happy with Wind being a discount provider and will likely mostly keep the status quo when it takes over. If Canadians were really attracted to Wind’s offerings, it would have attracted more than the approximately one million subscribers it has now.

Essentially, it comes down to this.

Telus has fallen some 10% since the Wind deal was announced. But I’m not sure future profits will be affected that much. It looks like analysts largely agree with me, with profit expectations for 2016 falling from $2.74 per share to $2.72. That’s pretty much a rounding error.

Still a great business

There’s a lot to like about Telus’s presence in western Canada.

Let’s first talk about a part of the business that is assumed to be in secular decline: television. Apparently, Telus didn’t get that memo, because the company is growing its base of cable subscribers nicely. In its most recent quarter it added 26,000 television subscribers. In comparison, Shaw lost 31,000 subscribers during the same time period.

Growth in wireless also continues to be strong. The subscriber base is up nearly 3% from a year ago with overall revenue from the division increasing by 4% based on strong demand for wireless data. We are hopelessly addicted to our smartphones, and Telus has the infrastructure needed for us to feed that addiction.

Investors are being rewarded as well. Telus has raised its dividend twice annually for years now, increasing the quarterly payout from $0.26 per share in 2011 to the current level of $0.44 per share. And management has indicated that investors can count on this continuing at least through 2016. The current yield is 4.6%, which is a terrific combination of current yield and dividend growth.

The company’s share-buyback program is pretty impressive, too. At the end of 2012, it had 655 million shares outstanding. As of the most recent quarter, the share count has been whittled down to 603 million. Again, investors can reasonably expect this program to continue through 2016.

Telus is a great company. Thanks to the current selloff, shares are finally a pretty good value. I suspect that in a year from now investors who don’t take advantage of this sale will be kicking themselves. Don’t be one of them.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SJR (Shaw Communications Inc.)
2. NYSE:TU (TELUS)
3. TSX:SJR.B (Shaw Communications)
4. TSX:T (TELUS)

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