3 Reasons to Buy Telus Corporation Over Rogers Communications Inc.

Description

Dividend investors love Canada's telecoms. And who can blame them?

They come with everything an income investor is looking for. These companies have great moats, are cemented into place by decades of marketing, have spent billions on infrastructure, and have limitations on foreign competition. They have the power to push through price increases to customers. We're addicted to our smartphones and Internet connections, which translates into nice steady revenue.

These stocks pay out succulent dividends. Each of Canada's five largest telecoms pay out at least 3.9% annually. In today's low interest rate world, those are some especially attractive yields. They beat anything my bank offers as a GIC, that's for sure.

It seems like the only decision investors have to make is which telecom to hold, since it's obvious the sector is a pretty good business. Here's why I would choose **Telus Corporation** (TSX:T)(NYSE:TU) over **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI).

Quality

Investors spend a lot of time looking at things like P/E ratios and other financial metrics, but they don't tell the whole story. We have to look a little deeper, peering inside the operations of each company.

There's a lot Telus is doing right. The company consistently ranks well in customer satisfaction surveys, especially after management made a few changes to give its front-line support staff the freedom to offer things like discounts to dissatisfied customers without having to transfer these calls to a supervisor. This resulted in less time spent on the phone and more satisfied customers.

Happier customers tend to stick around. Telus has been making headlines in the sector for having the lowest churn rate, posting a number which is consistently below 1%.

Rogers has spent a lot of time and energy improving its customer service over the past year and has had a certain amount of success. Official complaints against the company fell 26% in 2015 and 50%

over the last two years. But its churn rate is still stubbornly above 3%.

Most wireless analysts will admit that Rogers has the best wireless network, but I've yet to meet a customer who has really had problems with Telus's network. As long as customers are happy, perhaps some of the extra cash Rogers spent on spectrum was wasted.

Dividends

Both of these companies have great dividends. Rogers currently yields 3.9%, while Telus's dividend is slightly higher, paying out 4.4% annually.

Telus really shines when it comes to dividend growth. Both of these companies grew their dividends through the financial crisis of 2008-09, and if you look at a 10-year growth chart, Rogers did quite well. But remember, Rogers didn't pay a dividend of note until 2007.

Over five years Telus grew its dividend from $0.26 per share on a quarterly basis to $0.44 for a total growth of 69%. Rogers has also been an aggressive dividend raiser, increasing its quarterly payout from $0.36 to $0.48. That's good enough for a 33% raise.

A 33% raise in five years isn't bad, but Telus easily outshines that. And Telus has already committed to increasing its payout twice in 2016, while Rogers will likely continue its pattern of giving investors a $0.02 per share quarterly raise each year, which it has done since 2014.

Media

It's getting harder to make money off media assets.

Canada's economy is soft, for one thing. Advertisers have many different options that don't involve spending on television and radio ads. And especially in sports, the price of acquiring content keeps going up. Rogers has somewhat mitigated that by owning sports teams, but these costs still are a factor.

I'm convinced that Telus has the smarter model. The company has no interest in going into the media business at all. It's content to be the company that shows the media.

Rogers breaks down its media results in its earnings, and they aren't great. In the most recent quarter the media division brought in $560 million in revenue and only $56 million in operating profits for a 10% operating margin. In comparison, the company's operating margin in wireless and cable was 38% and 50%, respectively.

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2. Investing

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1. Editor's Choice

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2. NYSE:TU (TELUS)
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