# 4 Reasons Why Telus Corporation Is a Steal at Under $40

## Description

**Telus Corporation** (TSX:T)(NYSE:TU), one of Canada's largest telecommunications companies, has watched its stock fall over 9% in the last year and over 11% in the last six months, but I think it is an absolute steal at less than $40 today. Let's take a look at four of the primary reasons why I think this and why you should be a long-term buyer of the stock today.



**1. Its strong financial results could support a higher share price**

On February 11, Telus announced very strong earnings results for its fiscal year ended on December 31, 2015, but its stock has responded by falling about 1% in the trading sessions since. Here's a summary of 10 of the most notable statistics from fiscal 2015 compared with fiscal 2014:

1. Adjusted net income increased 4.7% to $1.56 billion
2. Adjusted earnings per share increased 6.8% to $2.58
3. Operating revenues increased 4.2% to $12.5 billion
4. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) increased 4.6% to $4.49 billion
5. Adjusted EBITDA margin improved 10 basis points to 35.9%
6. Cash provided by operating activities increased 4% to $3.54 billion
7. Free cash flow increased 2% to $1.08 billion
8. Total subscriber connections increased 2.2% to 12.5 million
9. Total wireless subscribers increased 2.1% to 8.46 million
10. Total wireline subscribers increased 2.3% to 4.04 million

**2. It's undervalued based on both current and forward valuations**

At today's levels, Telus's stock trades at just 15.3 times fiscal 2015's adjusted earnings per share of $2.58, only 14.6 times fiscal 2016's estimated earnings per share of $2.70, and a mere 14 times fiscal 2017's estimated earnings per share of $2.81, all of which are inexpensive compared with its five-year average price-to-earnings multiple of 17.3 and the industry average multiple of 22.2.

With the multiples above and its estimated 6.5% long-term earnings growth rate in mind, I think Telus's stock could consistently command a fair multiple of at least 17, which would place its shares around $46 by the conclusion of fiscal 2016 and around $48 by the conclusion of fiscal 2017, representing upside of more than 16% and 21%, respectively, from today's levels.

**3. It has a great dividend**

Telus currently pays a dividend of $0.44 per share quarterly, or $1.76 per share annually, which gives its stock a high and safe yield of about 4.5% at today's levels.

It is also important for investors to make two notes.

First, the company has raised its annual dividend payment for 12 consecutive years, and its recent increases, including its 4.8% increase in November 2015, has it on pace for 2016 to mark the 13th consecutive year with an increase.

Second, it has a program in place to raise its dividend by another 10% in 2016, which it will accomplish by announcing increases in May and November.

**4. It has been purchasing its shares**

Telus has been actively purchasing its shares, including 15.8 million shares for a total cost of $612 million in fiscal 2014 and 15.6 million shares for a total cost of $635 million in fiscal 2015, and this has all been a part of its $2.5 billion multi-year share-purchase program that began in May 2013.



In order to keep its program going, the company announced its 2016 normal-course-issuer bid on September 11, 2015. This program will enable the company to purchase up to 16 million of its common shares for an aggregate purchase price of up to $500 million from September 15, 2015 and ending on September 14, 2016.

These purchases will boost Telus's earnings-per-share growth potential going forward, and it shows that the company is fully dedicated to maximizing shareholder value.

**Is there a place for Telus in your portfolio?**

I think Telus represents one of the best long-term investment opportunities in the market today, so all Foolish investors should strongly consider making it a core holding.

**CATEGORY**

1. Dividend Stocks
2. Investing

**TICKERS GLOBAL**

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2. TSX:T (TELUS)

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