



Why You Should Rethink Investing in Telecoms Today

Description

Many investors like the telecoms for their dividends because the companies tend to generate stable cash flows from their subscription services for TV channels, Internet, and phones.

However, the picture may not be as rosy as investors think for the Big Three telecoms: **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)), **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)), and **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)).

The businesses

BCE and Rogers earn revenues of 12% and 15%, respectively, from their media business segment, while Telus focuses only on its wireless and wireline businesses.

Wireless and wireline products and services include wireless voice and data communication, wireless and wireline broadband, Internet subscriptions, and TV subscriptions.

Earnings growth

From 2012 to 2015, BCE experienced average earnings per share (EPS) growth of 1.9% per year. In the same period, Rogers experienced an average EPS decline of 5.7% per year, while Telus experienced the fastest growth of the three. Its EPS grew on average 12.1% per year in that period.

Since Telus is the only telecom without a media business, it'd seem its management did the right thing by focusing its efforts in the wireless and wireline businesses. That said, Telus's earnings growth is expected to slow down; its EPS is expected to grow only 4% in the next two years.

Dividend

Telus refuses to slow down its dividend growth. This year, it aims to grow its dividend by 10%—the same rate as last year. However, with earnings growth expected to slow down, this mean it has to expand its payout ratio, which it can't do forever.

Using Telus's quarterly dividend of 44 cents per share and its 2015 EPS of \$2.58, its payout ratio is 68%. Using similar calculations, BCE's payout ratio is 81% and Rogers's payout ratio is 67%.

Telus has increased its dividend for 12 consecutive years. It last increased it in the fourth quarter of 2015 at an annual rate of 10%, and it should hike its dividend again this quarter. BCE has grown its dividend for seven consecutive years. It last increased it in the first quarter by 5%.

Rogers was the most disappointing for income-growth investors because it has maintained the same quarterly dividend for five consecutive quarters. However, it's prudent for the company to restrain itself from growing its dividend until earnings grow again.

Conclusion

The telecoms' dividends remain safe for now. However, their dividend growth is expected to slow down because of slower earnings growth.

Additionally, the telecoms are expensive for their anticipated growth rates. At almost \$60 per share, BCE trades at 17.5 times its earnings. At close to \$50 per share, Rogers trades at 17.2 times its earnings. At almost \$41 per share, Telus trades at 15.7 times its earnings and is the best-valued telecom of the three.

Interested investors should look for further dips from the telecoms, especially on BCE and Rogers, before buying, even though their yields of 3.8-4.6% are competitive.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:TU (TELUS)
4. TSX:BCE (BCE Inc.)
5. TSX:RCI.B (Rogers Communications Inc.)
6. TSX:T (TELUS)

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