Is Telus Corporation Canada’s Best Dividend Stock?

Description

When it comes to identifying Canada’s best dividend stock, we should look for a company with the following characteristics:

- A good current yield
- Both dividend-growth history and a reasonable payout ratio
- Organic growth potential
- The ability to make acquisitions to grow the business
- Great profit margins
- Proven ability to navigate through recessions

There are several companies that check off all these boxes, but only one can be Canada’s finest dividend stock. Is **Telus Corporation** (TSX:T)(NYSE:TU) worthy of the crown?

Growth potential

Ultimately, a company’s dividend growth comes from increases in profits. Without the bottom line getting constantly larger, it’s really hard to keep increasing the dividend.

Telus continues to grow organically through a number of different ways. The company is slowly gaining customers from its competitors in both wireless and cable television. Canada’s economy is slowly expanding, which brings new customers into the fold. And Telus is doing a nice job of keeping its current customers, consistently posting a churn rate of lower than 1%. It then passes through price increases to these customers.

Telus doesn’t just have organic growth potential. Many pundits think it’s the logical choice to take over **Manitoba Telecom Services**. Telus already competes with Manitoba Telecom in the latter’s home turf, the geography makes sense, and, perhaps most importantly, acquiring Manitoba Telecom would keep **BCE** from expanding even further. Telus would also be the natural buyer of Saskatchewan’s publicly owned telecom SaskTel, if the government of that province ever decided to sell.

Execution

A company needs more than just growth potential to be an excellent dividend stock. After all, there are hundreds of tech stocks with soaring revenues that aren't accompanied by profits.

Telus's management team has done exactly what they've promised. The company has spent aggressively on capital expenditures over the last few years, further expanding wireless service outside Alberta, its home base. Cash has also been spent upgrading fiber optic lines, so the company can sign up more television subscribers.

Both metrics are working. In 2012 Telus earned $10.85 billion in revenue. In 2015 that number was nicely higher, coming in at $12.43 billion. Net profit grew accordingly too, increasing from $1.84 per share to $2.29 per share in 2015. And remember, 2015's profit was adversely affected by a $130 million one-time charge. Remove the charge, and earnings were closer to $2.50 per share.

Management has also made buying back shares a priority. Unlike other companies that buy back just enough shares to offset options given to management, Telus has made a real dent in the share count. On December 31, 2012, Telus had 655 million shares outstanding. At the end of 2015, that number was just 604 million.

Dividend growth

Telus's growth potential and its proven ability to execute bodes well for investors looking for an ever-increasing stream of dividend payments.

Telus pays a current dividend of $0.44 per share each quarter, good enough for a 4.5% yield. The company has been increasing the dividend twice per year since 2012, starting with the second quarter of the year. Look for that trend to continue in 2016 with the dividend likely going up to $0.46 per quarter when first-quarter earnings are announced next week.

Investors don't have to worry about Telus's payout ratio either. Analysts are expecting 2016 earnings to increase to $2.68 per share, with further growth to $2.85 per share expected for 2017. If Telus continues its pace of increasing the dividend by two cents per share every second quarter, the payout ratio will still be approximately 70% by the end of 2017–and investors will have a yield on cost of 5.3% based on today's price.

Telus is a great dividend stock. I'm not sure if it's Canada's finest, but it's certainly in the conversation. Even if it isn't Canada's best dividend stock, it would still look good in your portfolio.

CATEGORY

1. Dividend Stocks
2. Investing

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