BCE Inc. or Telus Corporation: Which Should You Own?

Description

The telecom sector has gotten countless investors rich over the last few decades.

There's a lot to like about it. In a world where access to information has become more and more important, the last thing most people will cut is their internet connection. Customers pay each and every month, ensuring dependable revenue for their provider. And Canada's top telecom providers have very little to fear from new entrants on the scene.

And perhaps most importantly, telecom investors own the gateway. The latest piece of hardware might not have a very long shelf life, as fickle customers move onto the next new thing. But no matter what device they use, Canadian consumers are limited to just a few different internet providers in their area. Providing the gateway has far better pricing power than providing the hardware.

It's for these reasons why Canada's telecoms are among the most popular must own stocks today. The only real question investors have to ask themselves is which telecom should be in their portfolio. Let's take a closer look at two of the largest in Canada, **BCE Inc.** (TSX:BCE)(NYSE:BCE) and **Telus Corporation** (TSX:T)(NYSE:TU).

Operations

Both Telus and BCE provide home phone, television, internet, and wireless services to Canadian consumers and businesses. Telus has wired operations primarily in western Canada, while BCE caters more to customers in the eastern part of the country. Each company provides wireless services nationally.

In addition to its main businesses, BCE also has a large media division which includes ownership stakes in some of Canada's most iconic sports franchises.

Growth for both companies has come primarily from wireless. Not only are younger Canadians ditching their home phones to just use their smartphones, but even television is suffering as many take the next logical step and cut that cord as well. Telus isn't really having that problem, but that's because its television service is still relatively new.

The main differentiating factor between the two companies is the media operations. Bell owns many of Canada's top television channels, including CTV, TSN, MuchMusic, Comedy, and many more. The media division itself isn't nearly as profitable as the other parts of the company, but it serves the purpose of providing cheap content for the television division.

Valuation

Both Telus and BCE are what I'd consider to be fairly valued today.

Telus trades at 17.6 times trailing earnings with earnings expected to increase in 2017 to $2.70 per share. That gives the company a forward P/E ratio of 15.5. Shares currently have a book value of $13.63, giving the company a price-to-book ratio of 3.07.

BCE trades at 19.1 times trailing earnings with the bottom line expected to increase in 2017 to $3.60 per share. This gives the company a forward P/E ratio of 16.8. Shares currently have a book value of $18.94, giving BCE a price-to-book ratio of 3.18.

There isn't much difference between the two companies, but Telus is slightly cheaper.

Dividends

Both Telus and BCE are dividend-growth studs with little indication of slowing down.

Let's start with Telus. The company pays a $0.46-per-share quarterly dividend–good enough for a yield of 4.4%. Five years ago, shares each paid 29 cents per quarter, giving it total dividend growth of 58.6%. The company has a current payout ratio of 77%, but that will go down as earnings increase.

BCE has a dividend of $0.6825 per share each quarter, which works out to a 4.5% yield. Five years ago, shares paid out a dividend of $0.52 each quarter, giving it total dividend growth of 31.3%. It has a current payout ratio of 86.4%.

Also keep in mind that Telus's management has made buying back shares a priority. At the end of 2012 Telus had 655 million shares outstanding. At the end of its most recent quarter that number had fallen all the way to 594 million. BCE, meanwhile, issued some 100 million new shares, although those were primarily used to pay for acquisitions.

Which should you buy?

While both companies are good operators and are poised to succeed over the long term, I prefer Telus because of its lower valuation, superior dividend growth, aggressive share buybacks, and its avoidance of the media industry.

CATEGORY

1. Dividend Stocks
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2. NYSE:TU (TELUS)
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