Telecom Showdown: Which 1 Should You Buy?

Description

Investing in telecoms is not exactly an exhilarating affair. Momentum chasers looking for tremendous earnings growth and a chance to make a quick trade should generally avoid Canada's boring and big telcoms in **Telus Corporation** (TSX:T)(NYSE:TU), **BCE Inc.** (TSX:BCE)(NYSE:BCE), **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI), and recently, **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR).

But as long-term investments, the Big Three (feat. Shaw) can be enticing, thanks to their stable revenue streams, industry barriers to entry and their strong yields. But are all telecoms created equal? In other words, is there a telcom that stands above the others? Let's find out.

Valuations

On a valuation basis, Telus and Shaw are trading at discounted multiples to the peer median thanks to the former's exposure to Alberta plus steepening competition to its wireline unit, and the latter's elevated capex profile and lower growth prospects during the transition from media company to a pure-play telcom. On the other hand, Bell and Rogers are richly valued due to their market dominance.

Ex 1. Telecom comps

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Author generated based on Thomson One estimates

Growth drivers

Currently, Bell, Rogers, and Telus have all introduced their own version of next-gen internet. On the horizon, we can expect to see further penetration of Rogers's 1gbps internet service IGNITE through eastern Canada, while Telus is in the midst of a multi-billion roll-out of high-speed fibre to the home (FTTH) to customers across B.C. and Alberta. Not to be outdone, Bell has also introduced FTTH to select regions in Ontario and Quebec.

While Shaw is sitting out of the fibre revolution, the company has focused its growth bets on its entry into the wireless arena. Earlier this year, Shaw caused quite a stir when it closed on its purchase of western Canadian–based WIND mobile, while selling its media assets to **Corus Entertainment Inc**.

Although it's too early to say whether Shaw's long-awaited move into telecom was the right call, Shaw is expected to undertake costly upgrades to WIND's aging 3G network to the more competitive, LTE standard. Furthermore, you can also expect Shaw to hunt for lower band spectrum to increase WIND's coverage.

In terms of their current core business, Telus and Rogers lead the pack with their low churn rates and blended year to date average revenue per unit (ARPU).

Ex 2. & 3. Churn rates and Blended ARPUs

churn-rates

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And the winner is…

Although picking a telecom is akin to choosing a favourite type of vanilla ice cream, the one telcom that edges out the others is Telus.

On a valuation basis, Telus is trading at a discount to its peers while paying out a hefty (and manageable) yield. While concerns over growing competition with Shaw in western Canada are valid, especially as the latter presses forward with its X1 TV platform, Shaw still has a long ways and a lot of cash burn to go before it can be a viable challenger in the wireless space.

Furthermore, as it currently stands, Shaw's payout ratio is a whopping 175% (vs. 63% for Rogers, 76% for BCE, and 52% for Telus), which is a heavy burden to bear in the midst of its transition.

CATEGORY

1. Dividend Stocks
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1. Editor's Choice

TICKERS GLOBAL

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

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