



## Can Telus Corporation Continue Growing its Dividend?

### Description

It is always a good day to be an income investor when a company announces the dividend is going to be increased. And for investors of **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)), early November was a happy time. The board increased the dividend from \$0.46 to \$0.48, payable on January 3, 2017. And this was after the dividend was increased back in Q1 2016 from \$0.44 to \$0.46.

But anytime the dividend is increased, investors have to ask themselves if it can continue growing. Investing in a company today is as much about the current dividend as it is about future growth. Investors need to determine if they can expect the dividend to continue increasing, and there are a series of variables that are worth analyzing.

First up is what management has to say. According to Telus's website, "Telus announced its intention to target ongoing semi-annual dividend increases with the annual increases in the range of 7-10% from 2017 through to the end of 2019." That would imply that there are at least six more dividend increases planned. Therefore, we can likely expect the next dividend increase to come in March 2017 if management is to be believed.

The next thing to consider is if the business is experiencing any growth. According to its Q3 results, its adjusted EBITDA was \$1.181 billion—up 5.5% year over year. However, its adjusted net income was down 3.8% to \$383 million year over year. And its free cash flow was only \$98 million—down by \$212 million year over year due to capital expenditures and higher income taxes. This is the first sign of concern because its free cash flow is used to pay the dividend. But we'll get back to this...

This growth in revenue and EBITDA is due to the company gaining new customers. It added 115,000 net wireless, high-speed internet, and TV customers. In total, its wireless subscriber base is over 8.5 million, about 1% more than a year ago. Its TV subscribers are up by 6.4% to over one million, and its high-speed internet customer base has increased to 1.6 million, or about 5.6%. And finally, its average revenue per user grew by 3.8%. Telus has the highest lifetime revenue per client among all its competitors at \$5,650.

One reason that the company has been able to keep its numbers increasing is because of its incredible

customer service. It was the top in the industry with a 0.94% churn in its wireless business. This means it lost less than 1% of its customers—the 12th quarter in the past 13 that this has been the case. It's expensive to find new customers, so the higher your churn, the more money you have to spend to stay at baseline.

Most things look great for the company, except for that free cash flow problem. While Telus is investing in its infrastructure (which will contribute to that low churn), the company has had to find ways to continue paying the dividend despite a weakening cash flow situation. It has accumulated quite a bit of debt and owes over \$12.6 billion. While it's not a problem now, it could come back to bite the company.

So what should investors do? I have some doubt that the company will be able to continue growing its dividend over the long term. However, most of the variables in play point to a successful next few years. So long as it keeps its churn down and continues adding new customers, I expect the dividend will keep going higher.

## CATEGORY

1. Dividend Stocks
2. Investing

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1. NYSE:TU (TELUS)
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