Telus Corporation: The Right Stock Heading into 2017?

Description

Christmas is behind us. The New Year is only a few days away. And investors are starting to take stock of the opportunities available to them as we hit 2017. One stock that I have been particularly intrigued with for much of 2016 is **Telus Corporation** (TSX:T)(NYSE:TU), Canada's third-largest telecom company.

Should investors acquire its stock or focus on other opportunities?

That depends on what you're looking for. If the type of stock you want is one that might appreciate significantly over the next few years, then Telus might not be the right stock for you. But if you're looking for dividends that management is working to continue increasing, at least for the next few years, Telus could be the right pick.

Here are a few things worth discussing…

Growth

According to its website, Telus is the fastest-growing telecom in Canada. Across its wireless, internet, and TV segments, it added 115,000 net customers, which was up 23,000 from the previous quarter. The bulk of these customers were in the wireless segment, which makes sense since most people are glued to their mobile phones.

One reason that the company was able to net more than 100,000 subscribers is because of the company's customer service. The company empowers its customer service representatives to do what is necessary to save the customer. That means that its churn (the number of customers it loses) is incredibly low. For 12 of the past 13 quarters, it maintained a churn rate below 1%; this quarter came in at 0.94%.

This is significant because it is more expensive to keep a customer than it is to find a new one. Typically, a new customer comes with a deal, which decreases the generated revenue per user. Looking at the company's average revenue per user (ARPU), it increased by 3.8% to $66.67 year over year. This is the 24th consecutive time the ARPU has increased, which just goes to show how powerful its customer service is.

Financials

On the topic of growth, it’s important to dive deeper into the earning results. Year over year, its revenue increased by 2.6% to $3.2 billion with EBITDA increasing by 5.8% to $1.131 billion.

Something worries me, though, and that’s the cash flow. This time last year, Telus posted $310 million in free cash flow; this quarter, that dropped to $98 million. Drops in cash flow happen from time to time, but if Telus is the right dividend pick, a shrinking cash flow means that dividend growth could be a problem.

Another thing that jumps out at me is the amount of debt the company has taken on. When 2012 came to a close, it sat on $6.7 billion in debt. At the end of this quarter, that debt ballooned to over $12.6 billion.

Returning value to investors

Naturally, Telus pays dividends, but it has also been buying back shares quite aggressively. At the close of 2012, it had 655 million shares. In January 2016, that was reduced to approximately 600 million shares. The company is looking to spend up to $250 million per year for the next three years to buy back shares.

On the dividend end, the company currently yields 4.49%, which is good for a $0.48 per quarter dividend. Management is looking to increase this yield by 7-10% every year from 2017 to 2019. Whether it can do that or not depends entirely on its cash flow (or its ability to borrow money to pay dividends).

So should you buy Telus? It’s a solid dividend stock, and it has been reducing the number of outstanding shares. And with a 4.49% yield, you’re almost guaranteed that in ROI each year. However, there are certainly risks, so it’s worth looking at other dividend stocks just in case.

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