



## Telus Corporation: Is it a Core Holding?

### Description

A reassuring way of ensuring that a company will be able to pay its dividends is its participation in either a monopoly or an oligopoly. And when it comes to the telecommunications business in Canada, **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)) and the few other major providers are in a solid position with little competition, making it far more shareholder friendly than other industries with more competition.

But just because Telus has been shareholder friendly in the past, is it a core holding going forward?

Telus currently yields 4.36%, paying \$0.48 per quarter to its investors. And management expects to increase this yield by anywhere from 7% to 10% from 2017 to 2019. And if we look backwards, the company has increased the dividend every year for more than 10 years, and the compound annual growth rate of that dividend over that time is a little over 10%.

But the negative side of the dividend is the payout ratio. According to management, “our long-term dividend payout ratio guideline is 65-75% of prospective net earnings.” For the three months ended in September 2016, the payout ratio was 78%, which is obviously on the higher end of management’s expectations. If the ratio remains that high, future dividend growth could be limited.

Fortunately, when compared to the other participants in the oligopoly, Telus’s payout ratio is actually lower, which leaves me optimistic that dividend growth can still occur.

### Financials

Can the financials support the ability to keep growing the dividend? Year over year, Telus’s EBITDA has increased by 5.8% to \$1.131 billion thanks to a 2.6% improvement in revenue to \$3.2 billion. There are a few reasons it was able to generate this sort of growth.

The first is the fact that it increased its subscription base by a net 115,000 in the third quarter. This was up 23,000 in the second quarter. The company has been able to keep its customers happy through exceptional customer service. For 12 of the past 13 quarters, Telus has maintained a churn rate below 1%. That means that it loses less than 1% of its subscriber base.

The other contributor to the growth is the average revenue per user (ARPU). By keeping churn low, Telus's advertising spending goes to finding new customers, not keeping current ones. Year over year, the company's ARPU increased by 3.8% to \$66.67, the 24th consecutive time ARPU increased for the company.

All in all, Telus sounds like a great buy, but there are two problems.

First, its cash flow (which is what funds dividends) crashed this quarter. In the third quarter of 2015, it had free cash flow of \$310 million. This quarter, that dropped to \$98 million. That sort of drop happens from time to time, but it could be concerning if it happens repeatedly.

The other problem is that its debt has exploded over the past few years. In 2012, it had \$6.7 billion in debt; now it has over \$12.6 billion. Its debt-to-equity ratio is 1.52, which is a higher than I like to see. However, much of its debt is at a fixed rate, so rising interest rates won't affect it too much.

So, should you buy Telus? In my eyes, Telus is a core holding thanks to its dividend. The growth is not going to be mind-blowing year over year, but because customers love it, Telus is in a fine position going forward. However, it'll need to get the debt and cash flow problems under control for this to be a truly buy-and-forget type of stock.

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## Date

2025/08/23

## Date Created

2017/01/09

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