



## Telus Corporation: Is This Canada's Best Dividend Stock?

### Description

It's a question many investors have asked themselves over the years: What exactly makes a great dividend stock?

A few different themes will inevitably start to emerge. The company must have a solid moat — the kind of competitive advantage that will discourage potential competitors. It must also boast attributes like dependable revenue, solid growth, stellar margins, and the kind of dividend history worth bragging about.

Think of dividends like marriage. The company makes a long-term commitment to shareholders, which is only broken if something drastic happens. No CEO wants to be remembered as the person who cut the dividend after years of steady payouts.

Once we narrow down dividend payers to a select few companies, we get the beginnings of a great portfolio. These are the kinds of companies that have not only succeeded in the past, but are also poised to continue their dominance in the future.

But only one stock can get the crown as Canada's best dividend payer. Is **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)) that stock? Let's take a closer look.

### The biggest reason to like Telus

There's one simple reason why I like Telus more than its peers: it hasn't bothered with the media business.

Both **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)) and **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) are both heavy players in media. Between them, they own some 150 radio stations, dozens of television channels, and even parts of Canadian professional sports teams. Rogers is also relatively big into print media, owning many prominent Canadian magazines.

Owning media assets makes sense for a few different reasons. The main one is that these stations provide content for the cable division. Rogers and BCE can save money by showing their own stations

versus paying a competitor's fees.

There's just one problem with the media business: it isn't nearly as lucrative as the wireless, television, or internet subsidiaries.

In its most recent quarter, BCE reported EBITDA margins for its media division of 26.1%, which is down slightly from the year before. It reported EBITDA margins for its wireless and wireline businesses of 43.1% and 41.7%, respectively.

It's easy to see what the weaker division is.

Telus has zero media assets. It can focus on higher-margin businesses. This is a major positive that doesn't normally get reported.

### **Other reasons**

Despite having, arguably, the superior business, Telus routinely trades at a discount to its peers.

A perfect example is the price-to-forward earnings ratio. BCE trades at 16.5 times analyst estimates for 2017's earnings. Rogers trades at 16.8 times forward earnings. Telus has the cheapest valuation of all, trading at 15.3 times 2017 net income expectations.

The company also consistently posts industry-leading churn rates, which is a measure of customer loyalty. It credits this to superior customer service staff, who have the freedom to offer perks to disgruntled customers without punting the issue to a supervisor.

And unlike its rivals, Telus is actually growing wireline services. Home phone is struggling, but the company has been able to post impressive internet subscriber gains and grow the number of cable TV customers. That's tough to do in 2017.

### **Giving back to shareholders**

We can't talk about a dividend stock without at least mentioning the payout.

Not only does Telus offer a terrific current yield of 4.4%, but it also offers a long history of growing the distribution.

A decade ago, Telus shares paid a quarterly dividend of \$0.188. That payout has more than doubled since, growing approximately 10% annually. The current quarterly dividend is \$0.48 per share.

I know a lot of employees who haven't increased their salary by 10% per year in the last decade.

Telus also gives back to shareholders by aggressively buying back shares. At the end of 2012, the company had 655 million shares outstanding. These days that number has been reduced to 592 million. That is a major investment.

### **The bottom line**

There are many reasons to like Telus as a long-term investment. It concentrates on attractive parts of the telecom sector. It has a terrific dividend with plans to grow the payout. And management continues

to do shareholder-friendly moves like buying back shares.

Is Telus Canada's best dividend stock? It's pretty high on the list, that's for sure.

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