# Better Buy: BCE Inc. or Telus Corporation?

## Description

Telecom stocks are some of Canada's most popular investments. It's easy to see why.

Recurring revenue is a big reason. Telecoms get paid every month, and for multiple services too. Wireless has become the main driver. We just can't get enough of our smartphones. But television is still a very big deal; some players fare better than others on that front. And people who are cutting cable are happy to spend extra on internet.



All of these divisions are very profitable, which translates into plenty of cash flow. Shareholders end up receiving most of the cash flow as dividends, although management makes sure to take enough to invest in new technology.

For many investors, the question isn't whether to own a telecom or not. The question is, which telecom? Let's take a closer look at two of Canada's telecom giants: **Telus Corporation** (TSX:T)(NYSE:TU) and **BCE Inc.** (TSX:BCE)(NYSE:BCE). Which one should you own over the long term?

### Valuation

Let's start with each company's valuation. Is one consistently cheaper than the other?

Telus currently trades for 18.7 times trailing earnings, according to Google Finance. The company is expected to earn $2.89 per share in 2017, putting it at 15.3 times forward earnings. And it trades at a price-to-book ratio of 3.15.

BCE currently trades hands at 18.6 times trailing earnings, which is a tiny bit cheaper than Telus. Analysts expect the company to earn $3.61 per share in 2017, which puts it at 16.2 times forward earnings. It currently trades at 3.1 times its book value.

There isn't much difference in valuation between the two companies. One thing investors may want to keep in mind is that Telus currently trades hands at close to its 52-week high, while BCE shares are down about 10% from their 52-week high, which was set in August.

### Operations

There are a number of things Telus is doing that I really like.

The biggest perk is, there's no media division. There's plenty to like about BCE's substantial media assets, but the fact remains that they don't generate nearly the operating margins that other divisions do. Media is a crummy business — at least when compared to cable, wireless, or internet. Advantage, Telus.

Telus is also doing a better job with organic growth. It continues to grow wireless and television subscribers at a decent clip. BCE is also doing a good job growing the same parts of its business, but Telus has been posting better results. Telus grew the top line by 2.67% in its most recent quarter versus BCE's more anemic 1.16% revenue growth.

One thing BCE does have going for it is management's willingness to pay for acquisitions. In the last three years, it has bought the portion of Bell Aliant it didn't already own and agreed to acquire **Manitoba Telecom**. These are big deals.

### Dividends



Both of these stocks are well known for paying generous distributions to shareholders. BCE wins the battle of current yield with its 4.66% dividend. Telus shares currently pay 4.35%.

Telus makes up for its smaller current yield in a couple of ways. It has grown the payout at a far faster pace over the last five years. Telus's dividend has grown by 65% since 2012, while BCE's payout is up just 26% in the same time period.

Telus also has been spending aggressively to buy back shares — something that doesn't get nearly the attention it deserves. Since the end of 2012, it has spent more than $2.5 billion in buybacks. If we include these repurchases as a different form of dividends, Telus has paid investors approximately 8% a year over the last few years.

### The bottom line

While both Telus and BCE are fine companies, I think there's a clear winner. Telus offers better organic growth potential, a stellar history of increasing the payout, a lack of media assets, aggressive share buybacks, and it consistently trades at a lower valuation. If I were choosing a telecom stock today, Telus would be it.

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1. Dividend Stocks
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