Ranking the Canadian Telecoms for 2017

Description

Canadian telecoms have been terrific long-term holds for income investors. They offer high, growing dividends and safety in the event of a recession. You could do well with any telecom in your portfolio if you've got a long-term time horizon. The dividend growth is out of this world, and there's a virtual oligopoly in the Canadian telecom scene.

I'll rank the Canadian telecoms by their valuation and long-term dividend-growth potential.

Without further ado, let's count down!

4. **BCE Inc.** (TSX:BCE)(NYSE:BCE)

BCE is the largest Canadian telecom and offers a huge 4.92% dividend yield at current levels. The company recently released an impressive earnings report in which the company met all of its 2016 guidance targets. For most investors, the high yield is the reason to own the company, but the stock pulled back recently. Is this cause for concern?

BCE was successful in boosting its subscriber base last year. But looking forward, the entrance of Freedom Mobile, a low-cost wireless carrier, could chip away at BCE's wireless subscribers. It's quite possible we've seen peak subscribers for BCE, and investors should be cautious as the subscriber growth could quickly turn negative thanks to increased competition in the Canadian telecom scene.

The stock is quite expensive at current levels, and the growth potential is lower than that of its peers. The stock trades at an 18.4 price-to-earnings multiple and a 4.1 price-to-book multiple, both of which are higher than historical averages.

Sure, the dividend is high and it's completely safe. But there's a high chance that the stock could pull back further in 2017.

3. **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI)

Rogers has seen its wireless subscribers grow by leaps and bounds over the last five quarters. The company added over 300,000 subscribers during this span, and we're very likely to see EBITDA skyrocket because a large chunk of the new subscribers are on two-year contracts.

Rogers has been investing in improving its customer service and customers have been very happy with this. The proof is in the pudding. The subscriber base has been rising at a ridiculous rate, and I believe the company will do well over the medium term.

The company pays an attractive 3.4% dividend yield, which is much lower than BCE's 4.92%, but I think Rogers offers a better value at current levels. The stock trades at a five price-to-book multiple, which is in line with the company's five-year historical average multiple. The stock appears fairly valued at current levels, and we are very likely to see a substantial dividend raise later this year.

2. **Telus Corporation** (TSX:T)(NYSE:TU)

Telus has been completely flat for over two years and has been one of the biggest losers in the telecom space during this span. The company offers a large amount of organic-growth potential and has a history of rewarding shareholders with aggressive share buybacks.

Telus lacks a media segment, which I believe is a huge plus since the media business is not the best for driving operating margins.

Telus pays an attractive 4.45% dividend yield and trades at an attractive valuation given its promising organic growth prospects. The price-to-book multiple is at 3.1, which is substantially cheaper than the industry average of 4.1.

1. **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR)

Shaw is going to be a huge disruptor to the Canadian telecom scene. Many Canadians have been begging for a cheaper high-quality alternative to the Big Three, and Freedom Mobile, Shaw's wireless carrier, could be the answer.

Shaw has been investing heavily in Freedom Mobile's wireless network. The LTE network will be finished later this year, and we're likely to see Shaw ramp up its marketing budget.

I believe Freedom Mobile could capture a huge chunk of the wireless market over the next few years. The Big Three incumbents will be fighting to keep their subscribers on board, and we may see pricing pressure.

Shaw is the fourth major player in the telecom space, and I believe Freedom Mobile will be very successful over the next few years. Don't expect quick profits overnight because it could take two or more years before Shaw starts to give the Big Three incumbents a real run for their money.

Takeaway

Don't just look at the yield when considering a telecom stock. You need to consider value and growth potential to maximize long-term returns.

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:SJR (Shaw Communications Inc.)
4. NYSE:TU (TELUS)
5. TSX:BCE (BCE Inc.)
6. TSX:RCI.B (Rogers Communications Inc.)
7. TSX:SJR.B (Shaw Communications)
8. TSX:T (TELUS)

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Date
2025/07/23
Date Created
2017/02/14
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