Better Buy: Telus Corporation or Shaw Communications Inc.?

Description

Telecom stocks have been popular with investors for generations now, and it's easy to see why.

The sector combines two things investors go gaga over. The first is dependable monthly revenue. Nothing beats knowing that your customers *need* to spend money each month on your service. There's a reason stocks that offer that kind of revenue certainty get valued a little higher than those that don't.

The other reason to like the telecom sector is, we're dependent on it. Sure, you could make the argument that cable is going away, and there's no doubt the home phone will eventually be replaced by wireless technology. But the data business — both wired and wireless — is absolutely booming.

Thus, for many investors, the question isn't whether or not to buy a telecom stock. That much is obvious. The issue is which telecom stock to buy.

Let's take a closer look at two of Canada's top telecoms: **Telus Corporation** (TSX:T)(NYSE:TU) and **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR). Which one should you buy today?

Outlook

In December 2015, Shaw shook up the industry by announcing it would acquire Wind Mobile, the only true independent wireless provider left in Canada. Shaw paid $1.6 billion for Wind's network and its 940,000 subscribers, which are located in B.C., Alberta, and southern Ontario. It had grand plans to grow Wind to become a true nationwide player.

Shaw has spent much of the last year — the transaction closed in March 2016 — making investments in Wind's network, bringing it up to the standards already established by its competitors.

The only problem is, Shaw's wireless margins are lower than its media division, which it sold to pay for the transaction. Shaw's profitability has taken a bit of a hit because of this.

Telus, in comparison, is far more boring. The company hasn't made a major acquisition in years, choosing instead to focus on retaining wireless customers, expanding its television service to new markets, and giving back extra cash to its shareholders. That may be dull, but I don't think many shareholders are complaining.

Valuation

According to the TMX Money website, Shaw trades hands at just 12.3 times trailing earnings. Its valuation is so low because it booked a big gain on the disposition of its media assets. The price-to-forward earnings ratio is probably the better valuation tool; it says Shaw trades at 20.4 times 2017's projected earnings of $1.35 per share.

Telus currently trades hands at 20.9 times trailing earnings. But unlike Shaw, it's forward earnings ratio drops significantly. The company is projected to earn $2.74 per share in 2017, placing it at just 15.7 times forward earnings.

Dividends

Telus has done a terrific job giving back to shareholders over the last few years, including raising its dividend twice per year since 2012 and buying back millions of shares. At the end of 2012, Telus had 655 million shares outstanding. These days, that number has dropped to 593 million. The current yield is 4.5%.

After spending years as one of Canada's top dividend-growth stocks, Shaw's dividend hasn't gone up since early 2015. Shaw's steadily shrinking cable subscriber numbers coupled with its decision to up capital spending indicates to me that dividend growth is no longer a priority. Still, shares offer an appealing 4.3% current yield.

The bottom line

Shaw's growth profile is definitely more interesting than Telus's. It will eventually take its newly rebranded Freedom Mobile nationwide, offering customers lower prices. But those attractive prices come with lower margins. I suspect Shaw will raise prices at some point.

Telus might not have the same growth potential as Shaw, but the company is well established. It does a nice job taking care of business, so to speak. And you can't argue with the impressive dividend-growth record.

If I were to put money to work in one of these companies today, it would be Telus Corporation. It truly is one of Canada's finest dividend stocks.

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