



Dividend Investors: Which Canadian Telecom Is Best for Your Portfolio?

Description

Canada is home to one of the most advanced telecommunications networks in the world. Over 70% of Canadian households are equipped with broadband internet, and over 80% of Canadians have some form of mobile device. Following a period of rapid growth in mobile and internet penetration, the market is now close to reaching the point of saturation.

Companies such as **Rogers Communications Inc.** ([TSX:RCI.B](#))([NYSE:RCI](#)), **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)), and **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)) have been responsible for much of the advancement in technology over the past decade but are now reaching an inflection point, meaning a return to slower, more mature growth. For investors, this means the emphasis turns from capital gains to income returns. This raises the question, which Canadian telecom is the best investment for your dividend portfolio?

When evaluating a prospective dividend investment, the first thing most investors will do is review a company's current dividend yield. The current dividend yield tells us which company would offer the best income stream if we were to assume zero growth for the company going forward. When comparing the current yields for the three Canadian telecom companies, BCE registers the highest current yield at 4.61% followed by Telus at 4.15% and Rogers trailing behind at 3.16%.

But while the growth for these companies is most likely to decelerate, most investors would expect that Rogers, BCE and Telus will all still be bigger in 10 years compared to today. To incorporate this view for some future growth, we can estimate the potential for a company's pace of sustainable dividend increases by combining our outlook for that company's return on equity (ROE) with its retention ratio, or the percentage of earnings which are retained by the company for reinvestment purposes rather than being paid out as dividends.

The company with the greatest potential for future dividend increases among the three Canadian telecoms is Telus with a sustainable growth rate of 6.8%. Second best is BCE, offering a 3.3% potential growth rate. Investors in Rogers should know that RCI shares pay out over 100% of company earnings in the form of dividends, indicating the company may be underinvesting for the future.

A company's sustainable growth rate is a great idea in theory, but it doesn't pay the bills. We may also want to take a look at how much these companies are actually increasing their dividends. Telus increased its dividend by the most of any company last year with a 9.5% hike, but it's only on pace for a 1.1% increase in 2017. BCE, however, is pretty consistent with increases of 5% in 2016 and 5.1% expected for the current year. Rogers, meanwhile, failed to increase its dividend at all during 2016 and has yet to raise the yield again thus far in 2017.

Which should you buy?

Investors in the sector should take note of the clear underperformance of Rogers as a potential dividend investment. Telus appears the best choice for a dividend-growth portfolio, although the rate of increases has varied in recent years. For those investors most concerned about receiving a steady stream of predictable dividend income, BCE appears to offer the best combination of current yield and sustainable dividend increases.

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Date

2025/07/23

Date Created

2017/05/01

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