Telus Corporation Raised its Dividend: Is it an Immediate Buy?

Description

Telus Corporation (TSX:T)(NYSE:TU), a stock that many income investors buy and hold in their dividend portfolios, released its Q1 earnings results. And the company announced that it would be increasing the dividend by 7.1% to $0.4925 per share.

Part of what makes me such a fan of Telus is that it has consistently increased the dividend, giving investors pay raises 13 times since 2011. Owning shares of a company that consistently increases the dividend is a great way to boost your quarterly income, which explains why Telus is an amazing buy-and-hold stock.

But if you've been reading my commentary on Telus, you'll know that I have reservations about the company.

Primarily, I've been concerned about the cash flow situation. In Q4 2016, Telus lost $191 million in cash flow versus the $197 million it earned in Q4 2015. However, no one really seemed to care, because in that same quarter, it distributed $272 million in dividends and purchased $39 million worth of Telus shares.

The good news, and what gives me some relief, is that cash flow in Q1 2017 was much stronger. It brought in $217 million; the last time it generated cash flow greater than that was Q3 2015. Although a single quarter of strong cash flow doesn't make me feel completely better, it's a good sign. And if the company can continue to bring in cash flow like that, I'll step off my podium of caution.

There are a couple of other details in the earnings release that are worth looking at.

First is its dividend-payout ratio. Management set up the guideline that it wanted to pay out anywhere from 65% to 75% of prospective net earnings per share. As of March 31, over the past 12 months, it was at 76%, so it's still in a comfortable position.

However, when not discussing adjusted net earnings, the actual dividend-payout ratio was 87% — up 11% from the previous 12 months. This likely has to do with the fact that cash flow generation was incredibly weak through 2016. Again, if the cash situation strengthens, this will likely drop.

The other thing to look at is the company's debt. In December 2016, it had US$613 million in issued and outstanding commercial paper. Fast forward to March 31, 2017, and that grew to US$1.122 billion. The company says that these proceeds can be used to "…supplement free cash flow and meet other cash requirements." One of those requirements is paying the dividend.

Here's where I stand on Telus.

It is a solid business, it generates strong earnings, and management consistently increases the dividend. And, frankly, so long as the debt market is available, the company is likely going to distribute more than it probably would in a different economic environment.

However, because Telus is taking on so much debt while also running into growing competitive forces across the country, I'm concerned about the company. Picking up shares is certainly not a bad idea, but it's important to not sleep on this company. Do your due diligence and recheck your thesis every quarter. If cash flows start to weaken again or the company issues more debt, you may want to get out.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:TU (TELUS)
2. TSX:T (TELUS)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/07/03
Date Created
2017/06/28
Author
jaycodon