



## 2 Headwinds That Could Slow Down Telus Corporation's Run

### Description

**Telus Corporation** ([TSX:T](#))([NYSE:TU](#)) has been a solid choice for many income investors over the years. The company has grown its dividend by a substantial amount over the last decade, but it appears that the magnitude of dividend growth and capital gains could be a lot lower over the next few years as several headwinds mount against the telecom giant.

Telus has a bountiful 4.36% dividend yield which is going to continue to grow over the next few years, but at a much more modest pace. Long-term investors in the stock need to reset their expectations going forward because Telus will be going against the grain. Although the management team is top notch, I think there's little the company can do to offset such incoming headwinds.

### Rising interest rates a negative for capex-heavy Telus

Interest rates have been at rock-bottom levels for a really long time now, and Telus has been a beneficiary of this. The company has been aggressively buying back its shares by increasing its overall debt because interest rates were so low. This resulted in solid capital gains to go with the high dividend that many Canadians flocked to over the past decade.

As you may know, rising interest rates are not good news for telecoms, which are capital-intensive businesses that do a lot of borrowing. While the other Canadian telecoms will be hit by the trend of rising rates, I believe Telus is going to feel the fullest effects because of its non-stop spending, which is likely to continue.

### The rise of Freedom Mobile a huge negative for Telus

The Big Three telecoms have had an oligopoly over the Canadian wireless market for quite some time. Canadians pay some of the highest wireless fees out there, but this may soon come to an end as Freedom Mobile, the wireless subsidiary of **Shaw Communications Inc.**, goes after the subscriber bases of the Big Three incumbents.

Telus's subscriber base appears to be really vulnerable to subscriber losses because of Freedom Mobile's entrance into the telecom scene. Telus has a solid presence in western Canada, and this is

where Freedom Mobile is investing a tonne of its cash in infrastructure upgrades. The management team at Telus knows that their subscriber base is going to be up for grabs, and that's why the company plans to invest over \$4.2 billion in Alberta on new broadband and wireless infrastructure by 2020, and approximately \$4.7 billion in similar upgrades in British Columbia. That's a lot of spending!

### Bottom line

Investors just can't expect the same outperformance with Telus like it's delivered in the past. Interest rates are rising, and Freedom Mobile is a serious threat, which will cause intense pricing pressure. Telus is going to be doing a tonne of spending on infrastructure upgrades as well as marketing promotions to retain its wireless subscribers.

Although the 4.36% yield is attractive, I'd look elsewhere for value because Telus has too many long-term headwinds ahead of it right now.

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