Is Telus Corporation a Buy After its Q2 Earnings?

Description

Telus Corporation (TSX:T)(NYSE:TU) released its quarterly earnings on August 11. The company's revenues rose just under 4% from the prior year. However, Telus saw its net income decline from $416 million a year ago to $386 million for the current quarter for a decline of over 7%. Earnings per share of $0.64 for the quarter were also down from $0.70 in 2016.

Those are the top- and bottom-line highlights, but let's dig a little deeper to see more about how the company did and if it is a good investment.

Segment analysis

Telus separates its operations into two main segments: wireline and wireless services. The wireline segment includes internet and television services, while the wireless division includes cell phone-related revenues and expenses.

Each of the company's segments saw a rise in income, but wireless revenues led the way with $1.8 billion in sales, up 5% from the previous year. Wireline revenues were up to $1.4 billion in Q2 for an increase of 2.5% year over year.

A look at EBITDA by segment reveals a different story. The company's wireless segment dropped over 1% from the prior year. The wireline segment, however, saw EBITDA climb by almost 4% from the year before.

Increase in subscribers and a low churn rate

Telus saw an increase in its wireless subscribers by over 3% from the previous year. The company's wireline subscribers saw less change with an increase of just 1% year over year.

Overall churn for the company was just 1%, and the wireless segment saw postpaid churn at just 0.79%. The wireless segment has now seen churn among postpaid subscribers remain under 1% in 15 of the company's last 16 quarters.

Improved cash flow and dividends

The company's free cash flow of $260 million was more than double the previous year's quarter, which had just $126 million. The current quarter's free cash flow is even more than the company accumulated last year, which was just $141 million in free cash for the full fiscal year.

The company gives back a lot of its free cash to shareholders in the form of dividends. Telus plans to average an annual dividend-growth rate of at least 7% and as high as 10% in good years.

Stock performance

Telus has not seen its shares perform particularly well in the past 12 months; they've yielded a return of a just 3%. However, over the past five years, the company's stock has produced returns of over 37% and outperformed the TSX, which yielded 26% over the same period.

Currently, the stock trades at around 20 times its earnings, which is higher than the 18 times that **BCE Inc.** (TSX:BCE)(NYSE:BCE) trades at but lower than **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI), which is often at multiples over 30. At a price-to-book multiple of over three, Telus's stock might be a little expensive to value investors.

Bottom line

Telus has demonstrated that it has, by and large, satisfied its customers by having a low churn rate while still being able to grow its total subscribers. It is a quality stock that can give you a decent dividend, and you're also likely see some long-term appreciation in the share price as well.

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