Better Buy: BCE Inc. or Telus Corporation?

Description

BCE Inc. (TSX:BCE)(NYSE:BCE) and **Telus Corporation** (TSX:T)(NYSE:TU) are two of the three largest communications companies in Canada, and both of their stocks represent very attractive long-term investment opportunities today.

However, in order to stay diversified, we can only invest in one, so let's compare each company's earnings results in the first half of 2017 and some important fundamentals to determine which is the better buy right now.

BCE Inc.

BCE is Canada's largest communications company with about 21.92 million subscribers as of June 30. Let's kick things off by taking a look at eight of the most notable financial metrics from the first half of 2017 compared with the first half of 2016:

Metric	1H 2017	1H 2016	Change
Operating revenues	$11.08 billion	$10.61 billion	4.5%
Adjusted EBITDA	$4.60 billion	$4.43 billion	3.7%
Adjusted EBITDA margin	41.5%	41.8%	(30 basis points)
Adjusted net earnings	$1.55 billion	$1.56 billion	0.5%
Adjusted earnings per share (EPS)	$1.75	$1.79	(5.3%)
Operating cash flow	$3.47 billion	$3.18 billion	9.0%
Free cash flow	$1.58 billion	$1.35 billion	17.1%
Total subscribers	21.92 million	20.93 million	4.8%

At the time of this writing, BCE's stock trades at 17.5 times the median of its adjusted EPS outlook of $3.30-3.40 for 2017 and 16.5 times the consensus analyst estimate of $3.55 for 2018, the latter of which is inexpensive compared with its five-year average price-to-earnings (P/E) multiple of 17.5. These multiples are also attractive given its estimated 3.4% long-term earnings-growth rate.

BCE pays a quarterly dividend of $0.7175 per share, equal to $2.87 per share annually, which gives it a yield of about 4.9%.

Investors must also make two important notes regarding its dividend.

First, the company's 5% dividend hike in February has it on track for 2017 to mark the ninth straight year in which it has raised its annual dividend payment.

Second, it has a target dividend-payout range of 65-75% of its annual free cash flow, so I think its consistently strong growth, including its 7.6% year-over-year increase to $3.23 billion in 2016 and its 17.1% year-over-year increase to $1.58 billion in the first half of 2017, will allow its streak of annual dividend increases to continue going forward.

Telus Corporation

Telus is Canada's third-largest communications company with about 12.81 million subscribers as of June 30. Let's take a closer look at the same eight notable financial metrics from the first half of 2017 compared with the first half of 2016:

Metric	**1H 2017**	**1H 2016**	**Change**
Operating revenues	$6.47 billion	$6.26 billion	3.4%
Adjusted EBITDA	$2.50 billion	$2.38 billion	5.0%
Adjusted EBITDA margin	38.6%	38.1%	50 basis points
Adjusted net earnings	$841 million	$829 million	1.4%
Adjusted basic EPS	$1.42	$1.39	2.2%
Operating cash flow	$1.84 billion	$1.46 billion	26.1%
Free cash flow	$477 million	$234 million	103.8%
Total subscribers	12.81 million	12.49 million	2.5%

At the time of this writing, Telus's stock trades at 17.3 times the median of its adjusted EPS outlook of $2.49-2.66 for 2017 and 15.5 times the consensus analyst estimate of $2.88 for 2018, both of which are inexpensive compared with its five-year average P/E multiple of 18.5. These multiples are also inexpensive given its estimated 6% long-term earnings-growth rate.

Telus pays a quarterly dividend of $0.4925 per share, equal to $1.97 per share annually, which gives it a yield of about 4.4%.

Investors must also make the following two notes about its dividend.

First, Telus's recent dividend hikes, including its 2.6% hike in May, have it positioned for 2017 to mark the 14th consecutive year in which it has raised its annual dividend payment.

Second, it has a dividend-growth program in place that calls for annual growth of 7-10% through 2019, and I think its strong financial performance, including its aforementioned 103.8% year-over-year increase in free cash flow to $477 million in the first half of 2017, will allow it to complete this program and announce a new one that extends into the late 2020s.

Which is the better buy now?

Here's how each company ranks when comparing the strength of their earnings results in the first half of 2017, their stocks' forward valuations, their earnings-growth rates, their dividends, and their dividend-growth history:

Metric	BCE	Telus
1H 2017 earnings strength	2	1
Forward P/E valuations	2	1
Long-term earnings-growth rate estimate	2	1
Dividend yield	1	2
Dividend-growth history	2	1
Average rank	**1.8**	**1.2**

As the chart above depicts, BCE has a higher dividend yield, but Telus wins out in every other category, which gives it an easy win in this match-up.

With all of this being said, I think BCE and Telus both represent fantastic long-term investment opportunities today, so all Foolish investors should strongly consider making one of them a core holding.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:TU (TELUS)
3. TSX:BCE (BCE Inc.)

4. TSX:T (TELUS)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
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