Should We Be Buying Telus Corporation After Strong Q3 Results?

Description

Telus Corporation (TSX:T)(NYSE:TU) continues to demonstrate why it's a fan favourite, ending Q3 2017 with great results that continue to push shares higher. Along with the lucrative quarter, investors were also rewarded with a dividend increase. And as Telus has shown in the past, if earnings remain strong, the dividends will follow.

This quarter, Telus increased the dividend from $0.4925 per quarter to $0.5050. That's not a massive increase, but because of how consistently Telus has increased the dividend, investors that have held even for a few years are in a far better income position than they were when they started.

Operating revenue increased by 4% to $3.366 billion and adjusted EBITDA increased by 4.4% to $1.2 billion. A big reason for the increase in revenue is that the company added 152,000 new customers across its suite of products.

By diving deeper, we can see that Telus added 124,000 wireless customers, 19,000 high-speed internet subscribers, and 9,000 TELUS TV customers. In the wireless division, it decreased its monthly postpaid subscriber churn to 0.86%, an eight-basis-point year-over-year drop. Telus increased its blended average revenue per user to $68.67 — a 3% increase.

In total, the company has 12.942 million customers, an increase of 2.9% from a year prior. Telus continues to provide exceptional service to its customers, hence why the churn is so low, and its earnings remain competitive, which should leave investors feeling confident.

So, should you buy Telus?

That's where I actually remain a little uncertain. Back in September, Telus was struggling. It is since up nearly 10% since I wrote that article, but one thing jumped out that continues to remain a problem for Telus: debt.

In Q3, net debt was $13.4 billion. This is up by $1.2 billion from one year earlier. Debt is a problem primarily because interest costs begin to eat into the total earnings and available cash. And as interest rates begin to inch up, it can quickly become a problem. And we can see that happening two ways.

First, in the earnings release, Telus revealed that its fixed-rate debt as a proportion of total indebtedness was 89%, which is down from 95% Q3 2016. This means 6% more of its massive stash of debt is on a variable rate.

Second, financing costs continue to increase. In Q3 2016, Telus had $129 million in financing costs. This quarter, it had $149 million in financing costs. This is a 15% year-over-year increase. If that were to continue, you'd be looking at $171 million a year from now.

This is problematic, specifically to dividend investors, because the more cash being allocated to interest, the less that is allocated to the dividend. And the company reports on EBITDA, which is earnings before that interest is taken into consideration. So, while adjusted EBITDA was up 4.4%, adjusted net income was only up 2.1%.

This is not an immediate problem, and I am not recommending that investors sell; on the contrary, I think Telus has quite a bit more growth ahead of it. However, it is incredibly important that we investors never forget to pay attention to things like debt. Telus is funding its dividend growth, in part, with debt. And some day, the debt collector will come. Hopefully, Telus will be in a position to pay.

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