Income Investors: Does it Still Make Sense to Invest in the Canadian Telecoms as Interest Rates Rise?

Description

Although there are many long-term headwinds that will negatively impact the Canadian telecoms, like rising interest rates and increased involvement of government regulators, the Big Four telecoms remain compelling investment options for income investors with a preservation-of-capital approach to investing.

It's hard to match the safe, stable, and defensive nature of the telecoms. And for retirees, a rising interest rate environment is pretty much bad news for all the asset classes that offer the most stable sources of income. Think REITs, utilities, and telecoms, which are likely major holdings in the average retiree's portfolio.

Sure, rates are going higher, but that doesn't mean a retiree should ditch stocks based on the industry it's in. It's important to remember that individual companies certainly have the ability to offset industry-wide headwinds, and those that rise to the occasion can still offer long-term investors an above-average total return that has capital gains plus dividend payments.

Why is the Canadian telecom index slowing after years of top-notch performance?

If you look at many of the top Canadian telecom market darlings, like **BCE Inc.** (TSX:BCE)(NYSE:BCE) and **Telus Corporation** (TSX:T)(NYSE:TU), over the past few years, you'll notice that the once-surging stocks are now beginning to stagnate.

The days of rock-bottom interest rates are over, and that's bad news for companies that need to consistently spend a great deal on infrastructure. **Rogers Communications Inc.** (TSX:RCI.B)(NYSE:RCI) has been an outlier, with its shares surging over the past two years thanks in part to impressive subscriber growth momentum.

The wildcard, **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR), a long-time cable provider and new entrant to the wireless space through its subsidiary Freedom Mobile, has been trying to capture a chunk of the Big Three's wireless pie, but over the next few years, it'll be playing the game of catch-up as it improves its network to become more competitive in the space.

Bottom line

When you look at the telecom industry through a broader lens, it's apparent that the longer-term headwind of rising interest rates is already baked in to the stock price at current levels, so it really wouldn't make sense for retirees to lower their exposure to the telecoms, especially since, in the grander scheme of things, interest rates are still historically at the low end.

As a conservative income investor, you'll still get a rock-solid dividend that will still grow by a respectable amount year after year, so I wouldn't recommend going out of your way to replace your exposure to the telecoms just because rates are on the upward trajectory.

Telecoms are still an essential part of a prudent investor's portfolio, and retirees shouldn't be jumping in and out of telecoms because of fears over the next rate hike.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:RCI (Rogers Communications Inc.)
3. NYSE:SJR (Shaw Communications Inc.)
4. NYSE:TU (TELUS)
5. TSX:BCE (BCE Inc.)
6. TSX:RCI.B (Rogers Communications Inc.)
7. TSX:SJR.B (Shaw Communications)
8. TSX:T (TELUS)

PARTNER-FEEDS

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

Category

1. Dividend Stocks
2. Investing

Date
2025/08/26
Date Created
2017/12/24
Author

joefrenette