



## BCE Inc. vs. Telus Corporation: Which Is the Better Buy?

### Description

**BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) announced January 5 that it had closed its \$182 million acquisition of AlarmForce Industries, a Toronto-based home monitoring company with approximately \$57 million in annual revenue.

In an interesting twist to the deal, BCE is selling 39,000 customer accounts in Saskatchewan, Alberta, and British Columbia for \$66.5 million. Who is the buyer? It's none other than west coast competitor

**Telus Corporation** ([TSX:T](#))([NYSE:TU](#)).

Each AlarmForce shareholder had the choice to receive \$16 cash per share held or 0.2597 of a BCE common share and a penny in cash. It will be interesting to hear how many AlarmForce shareholders opted to roll their shares into BCE.

Though it's a small transaction for both BCE and Telus, I think it's an ideal time to consider which is the better buy.

### Three BCE positives

There's no question — whether we're talking about BCE, Telus, or **Rogers Communications Inc.** — the wireless segment is the growth area for all three businesses. In December, Rogers suggested that it might sell the Toronto Blue Jays to focus on expanding its wireless network, which generates a significant portion of its cash flow.

Fool contributor Demetris Afxentiou pointed out in a December [article](#) that BCE, in Q3 2017, had its highest third-quarter growth in wireless subscribers in over a decade. According to BCE's Q3 2017 press release, it had 9,008,273 subscribers — 7.5% over the same period a year earlier.

This is very positive news if you're a BCE shareholder.

The second positive is BCE stock is currently yielding 4.9%, which is higher than both Telus and Rogers. BCE's yield is higher than it's been in several years due to a slight pullback in its stock price as a result of concerns higher interest rates will see investors rotate out of telecoms.

If you're a buy-and-hold investor, that shouldn't be a big problem for you.

Third, and the most important positive for BCE in my books, is its growth in free cash flow (FCF). In the third quarter, FCF grew 24.4% to \$1.2 billion from \$951 million a year earlier. In its guidance for fiscal 2017, it said it's on target to grow FCF by 5-10% over last year. If it hits the high end of its guidance, it will generate FCF of \$3.2 billion, the highest amount over the past five years, providing investors with a cash return of 5% — more than double that of Telus.

### **Three Telus positives**

The first positive is Telus got a good deal on AlarmForce's western subscribers, paying \$1,705.13 per subscriber for the 39,000 accounts in the three provinces, while BCE paid approximately \$1,833.22 per subscriber for the remaining 63,004 accounts — that's a discount of about 7% per subscriber for Telus.

Telus and BCE both grew their average revenue per user (ARPU) in Q3 2017 by 3% over the same period last year. Also, both companies' ARPU is within a dollar of each other (BCE = \$69.78 vs. Telus = \$68.67). However, Telus has increased its wireless ARPU for 28 consecutive quarters.

If you're counting, that's seven impressive years.

Finally, Telus stock's long-term performance over the past decade on an annualized basis is 9.7% — 210 basis points higher than BCE. Despite having a lower dividend yield, it's managed to outperform BCE.

### **Which is the better buy?**

Although past performance doesn't dictate future results, it is a meaningful metric. While it's hard to ignore BCE's strong FCF, I consider Telus the better buy if you're looking to bet that the wireless industry will continue to grow.

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