Will Telus Corporation Be Hammered by Rising Interest Rates?

Description

As one of Canada's largest telecommunications companies, **Telus Corporation** (TSX:T)(NYSE:TU) is often looked at by investors as a very safe and stable company with a wide moat and solid long-term fundamentals, which should provide meaningful returns over time. Certainly, over the long haul, Telus has provided investors with a very reasonable return along with a handsome yield. With interest rates remaining near all-time lows, the company has been much more attractive to income-focused investors in recent years than bonds or other fixed-income securities, which have underperformed.

As a major telecom player in Canada, Telus has seen a minor sell-off of late, which has been linked to rising Canadian government bond yields following the recent interest rate hike by the Bank of Canada. Over the past month, bond yields have risen approximately 40 basis points — a substantial climb given the fact that rates have been near record lows for some time. As an interest rate-sensitive name, with further interest rate hikes on the horizon, many investors and analysts are suggesting caution with companies such as Telus due to their consideration as fixed-income proxies in this rising rate environment.

Telus is not a cheap option for investors, considering its valuation fundamentals. Telus currently trades at approximately 16.2 times forward 2018 earnings, and it has a price-earnings-to-growth ratio of 2.84, suggesting much of the future earnings growth has been priced in to its current valuation. The company has, however, maintained a very healthy return on equity and return on assets of 15.3% and 5.8%, respectively.

Another factor investors should consider is the fact that Telus's management has recently provided forward guidance that it is intending to reduce its capital-expenditure budget moving forward, indicating that the company may begin returning more value to shareholders, as its infrastructure spending slows over time. Telus also announced higher-than-expected subscriber growth in its major operating segments, suggesting future profitability may be higher than expected, providing investors with another reason to consider Telus at this time.

Bottom line

With a relatively protected position within the oligopoly that is the Canadian telecom space, I see Telus as a relatively insulated long-term play for investors not scared off by its current valuation multiple. I would wait to see a larger pullback in general before suggesting Telus is a buy at this point in time; however, with a number of analysts projecting earnings-per-share growth in the double-digit range for the foreseeable future, buying Telus on any near-term weakness may turn out to be a profitable trade long term.

Stay Foolish, my friends.

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