Has the Telecom Fall Ended? Which of These 3 Stocks Are Best Buys?

Description

In the rising interest rate environment, investors worry about telecoms because this sector has high financial leverage. Like banks, telecoms borrow money to make money, but the distinction is that a bank has the luxury of changing lending rates with transparency to the customer, like a variable mortgage rate, whereas telecoms can't pass on costs as easily.

Share prices of three big telecoms have been dropping since December, in advance of interest rate hikes. What is behind this correction?

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI) has fallen the hardest, dropping 14% from its 52-week high, while **BCE Inc.** (TSX:BCE)(NYSE:BCE) and **Telus Corporation** (TSX:T)(NYSE:TU) have fallen 9% and 6%. In August of last year, I'd said Rogers was overbought and due for a correction. I was a bit ahead of myself, but the prediction was accurate. Is it time to add Rogers to your portfolio, or would BCE or Telus be wiser choices?

Rogers

Buying shares of Rogers right now would be risky in the short term, mainly because the share price started the year by breaking below the 200-day simple moving average, and it has been a gradual free fall ever since. Based on the chart, Rogers could drop another $2 before hopefully finding support at $57 per share. The substantive fall has trailing and forward price-to-earnings ratios (P/E) in line with historical average. The share price is not a bargain, but it's close to a fair value.

Rogers has the lowest dividend yield (3.2%) of the three, so I would rather wait until the share price is a better bargain to get value plus dividend income.

Telus

Telus has had a solid year, but it's arguably slightly overvalued, despite the recent drop. In January, Telus acquired AlarmForce Industries for $66.5 million, securing home security customers, assets, and operations in B.C., Alberta, and Saskatchewan. The deal actually had BCE in the mix. Essentially, BCE bought AlarmForce and agreed to have Telus take part of the business. BCE must feel optimistic about this deal, because it issued 22,531 BCE common shares to fund the transaction.

BCE

BCE is the largest company of the three, and it has the highest dividend yield (4.8%). With free cash reserve totaling $3.3 billion (twice Rogers's level), BCE has a tonne of free cash. It can make bold moves, like pouring money into new technology, as I described previously when I covered 5G, or BCE can acquire other businesses. By my count, BCE has acquired 21 companies in 16 years — a much more aggressive acquisition mantra compared to Rogers and Telus.

Take-home message

The battle for all three of these companies is for a place in your home. Rogers has secured aspects of the living room, with seven more years of Hockey Night in Canada, whereas Telus and BCE are thinking more broadly.

Telecom has changed. The smartphone is meant to be the most useful device in the home, acting as the hub that connects entertainment, messages, and security. It is still hard to bet against BCE. Valuation-wise, BCE is currently the most attractive.

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