Is Debt Becoming a Problem for Telus Corporation?

Description

It seems that every quarter I look at **Telus Corporation** (TSX:T)(NYSE:TU), their debt continues to go up. This time is no different. Telus released its fourth-quarter results in February, and the debt burden continues to be a drain on the business.

To gain a better understand of the burden, we need to look at the financing costs section of the release. Lo and behold, financing costs increased by $10 million in the fourth quarter from the previous year. Looking at 2017, financing costs increased by $53 million year over year.

In total, the company spent $573 million in 2017 on financing costs. Gross interest came in at $579 million, but employee defined benefits plans offset that by about $6 million.

The only decent news I took from the financing costs section is that the weighted average rate on long-term debt dropped from 4.22% to 4.18%. Any reduction in the interest rate means the company is wasting money on its debt.

Telus is certainly making moves to refinance its debt in an effort to reduce the financing costs. The company announced a debt offering at the end of February, raising $600 million in 10-year notes at a 3.625% rate; however, it also had a $150 million re-opening at 4.7%, which matures in 2048.

Most of this debt is to cover debt that is maturing this month, but one part of the sentence always jumps out to me: general corporate purposes. Effectively, Telus intends on using the remaining proceeds of the loan for whatever it sees fit, which just means adding more debt to the books.

But now let me get off my worry box and say this: I don’t believe Telus is a bad investment. Here’s why …

Debt can be a great tool to fuel growth; as long as the company is making more money on its debt investments than it is forced to pay in financing costs, then the debt was worth it.

Adjusted net income for the fourth quarter was $328 million, compared to $316 million in Q4 2016. I expect this to continue increasing thanks to the wireless business adding tens of thousands of new customers every quarter while also increasing the average revenue per user.

And lest we forget, Telus pays an incredible dividend. Management will pay a $0.5050 per share dividend at the beginning of April, which at current prices is good for a 4.29% yield. And Telus has continued to increase its dividend, targeting annual increases of 7-10%.

One statistic jumped out from the earnings release. Since 2004, management has returned more than $15 billion to investors. That means that if you had bought Telus in 2004, you'd have earned over $25 per share. That's a great ROI.

Ultimately, here's the lesson to take from Telus. Companies with a lot of debt are not inherently bad investments if they can manage the debt. However, it can turn nasty very quickly if lenders stop lending. Therefore, keep an eye on Telus. There may not be a problem right now, but that may not always be the case.

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jaycodon