Which Is the Better investment: Telus Corporation vs. Shaw Communications Inc.?

Description

You can't go wrong by investing in one of Canada's telecoms. As our lifestyle becomes increasingly more connected with each passing day, our internet connections and wireless devices are steadily becoming (if they aren't already) necessities of modern society.

To ensure an adequately diversified portfolio, however, which telecom should you have in your portfolio?

Today, let's look at both **Shaw Communications Inc.** (TSX:SJR.B)(NYSE:SJR) and **Telus Corporation** (TSX:T)(NYSE:TU) to determine which is the better fit.

The case for Telus

Telus offers subscribers wireline, wireless, internet, and TV services to its customers across the country. As with any telecom, one of the primary concerns for the company is being able to keep customers happy, who in turn provide Telus with a steady (if not growing) stream of monthly revenue.

The churn rate indicates how many subscribers are dropping off and moving to competitors. This is an important measure for telecoms, which are reliant on that monthly revenue stream.

Fortunately, this is one area where Telus excels over its peers. The company has both the lowest churn rate in the industry and a record-breaking 29 quarters of consecutive ARPU (average revenue per user) growth. In other words, Telus can keep customers and charge them more with each passing month.

Another interesting fact for potential investors to consider is the dividend. Telus's quarterly dividend doesn't get the attention it really should. While the current quarterly payout of $0.505 provides a very impressive 4.39% yield, the impressive fact comes in the form of the dividend growth of that stock over time.

Telus has hiked the dividend on a nearly bi-annual basis for at least half a decade; looking back over the course of a decade reveals that the dividend has more than doubled in that period. In fact, an investment in Telus a decade ago with those dividends reinvested would be worth over five times the initial investment today.

Telus currently trades at $46 with a P/E of 18.69.

The case for Shaw

Shaw is the smallest of the major carriers in Canada, offering the same services as Telus, but to a smaller audience. Still, Shaw has a major advantage over Telus and the other carriers that shouldn't be discounted.

Shaw has, until recently, lacked a true mobile option. With the acquisition of Wind Mobile, Shaw began a multi-year process of upgrading the network and rapidly expanding Wind's paltry coverage with the aim of becoming a nationwide alternative to the other carriers.

That alternative branding is something that we often dismiss as investors but cherish as users.

Canada has some of the highest rates for wireless users in the western world, which is arguably due to a lack of competition. Wind was an alternative to that model, offering contract-free devices with rates that were significantly lower than the other carriers. Customers loved those rates and saw Wind as a true alternative, but ultimately, Wind's lack of coverage was its demise.

Shaw has pledged to keep those fundamentals in its aptly named Freedom Mobile, and the strategy is working. Over the past year, Shaw has managed to garner over 130,000 new subscribers from a product that is still rolling out and not available nationwide.

Given the growing importance of mobile connections and our insatiable thirst for data, the value proposition presented by Freedom mobile could prove to be a source of significant growth over the long term.

Like Telus, Shaw offers a dividend to investors, but Shaw has a monthly distribution with a yield of 4.46% and has not seen the same level of growth that Telus has.

Which is the better investment?

This is a hard choice. Shaw is clearly a growth play for the future through Freedom Mobile wireless, and a monthly dividend with a yield of over 4% will get the attention of any income-seeking investor. The only problem with that is that it could be several years before Freedom Mobile has full nationwide coverage.

If you are a long-term investor looking for growth and income, Shaw may be more to your liking.

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