BCE Inc. vs. Telus Corporation: Which Is the Better Buy for 2018?

Description

With **BCE Inc**. (TSX:BCE)(NYSE:BCE) down 11% year to date and 14% in the last year, and **Telus Corporation** (TSX:T)(NYSE:TU) down 3% year to date and marginally higher than one year ago, let's revisit where these companies are at strategically and financially to help us determine which stock is a better buy for 2018.

There is no doubt that BCE is still the more stable choice between the two, with a proven track record of execution and cost efficiencies, and a strong cash flow profile and balance sheet.

Currently giving investors a dividend yield of 5.67%, and with a 107% increase in dividends in the last nine years, BCE is proving to be an investor's dream. And with current weakness in the share price, an entry point to this dream is looking more and more attractive — especially since the weakness in the stock price is more a reflection of rising interest rates than of actual company fundamentals.

With free cash flow of more than $3 billion in 2017, and free cash flow as a percentage of revenue of well over 10%, BCE is a pillar of strength and is ready to invest in the business.

Moving to the most recent quarter, the first quarter of 2018, free cash flow was strong again, coming in at $535 million — an almost 10% increase compared to the same quarter last year.

Importantly, BCE made good traction again in the wireless fight, almost doubling the number of wireless subscribers. This follows a strong fourth-quarter 2017 wireless performance.

BCE's continued investment in the wireless space should keep this momentum going, although the competitive landscape is intense. Furthermore, BCE is spending billions to invest in its fibre-optic networks, as this is the future of the telecommunications industry.

Going forward, we can expect a mid-single-digit annual dividend increases for BCE, which will be supported by the company's ample cash flow.

Telus, which is expected to report on May 10, is currently trading at a dividend yield of 4.4% and has a long history of semi-annual dividend increases, with a seven-year compound annual growth rate of

11.4%.

Telus has been the faster-growing company, but this growth is from a smaller base. And it is certainly the higher-risk option of the two, as the company has been spending heavily on its network, accumulating a big debt position and using up its cash flow, and maintaining a dividend-payout ratio that is very elevated.

Going forward, Telus is expecting to deliver a 7-10% annual growth rate in its dividend.

So, while both of these tech stocks have their merits, at this point I am favouring BCE, where we have recent stock price weakness, which has created an attractive entry point, a higher dividend yield, and greater stability and financial flexibility.

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