Which of These 2 Canadian Telecoms Stocks Provides Better Shelter for Investors?

Description

No two telecoms stocks were made equal, but investors like to compare the following duo of tickers. While this article may seem to do no different, we're going to look beyond basic valuation and outlook in terms of annual growth in earnings and ask which stock is the most defensive. To do so, market cap and a few pieces of data relating to health and past performance will be scrutinized. Let's see which of the two stocks will bring investors the best shelter and solidity in the face of economic uncertainty.

Rogers Communications (TSX:RCI.B)(NYSE:RCI)

If you like communications and media stocks, then chances are you will at least have seen this ticker doing the rounds. Rogers Communications is a value investor favourite at the moment, discounted by 28% of its future cash flow value, though with somewhat overheated multiples.

A 9.6% expected annual growth in earnings over the next one to three years gives Rogers Communications the slight edge out of the two stocks in terms of outlook. A return on equity of 25% last year likewise beats the competition outlined below and signifies decent quality. A dividend yield of 2.86% is a tad lower than it could be, but isn't too bad.

TELUS (TSX:T)(NYSE:TU)

TELUS is one of the biggest telecoms providers in the country and a natural competitor for Rogers Communications in terms of investment. It's a good pick for value investors at the moment, making a choice between the two stocks something of a coin toss. However, discounted by only 7% of its future cash flow value and also showing slightly overheated multiples, it's not as undervalued as the former stock.

Though an 8.4% expected annual growth in earnings over the next one to three years does reinforce some similarity between the two tickers, a return on equity of 15% last year is lower than Rogers Communications's ROE. Where TELUS really comes through at the moment is with its higher dividend yield of 4.42%.

But how defensive are these stocks?

Rogers Communications's yield of 2.86% may be lower than TELUS's 4.42%, but it beats the latter in terms of sheer size, with a market cap of $35 billion compared to TELUS's $28 billion. They have similarly acceptable P/E ratios: Rogers Communications clocks in at 19 times earnings, while TELUS is just a little higher at 19.4 times earnings.

Where things get interesting, though, is in the past performance department. Rogers Communications's one-year past earnings growth of 75% beats its industry average of 54.5% for the same period as well as its own five-year average past earnings growth of -3.7%. TELUS, meanwhile, had a much lower one-year past earnings growth of 18.3%, which trailed the same-year industry average of 94.3%, but beats its own five-year average past earnings growth of 0.8%.

The bottom line

Rogers Communications's debt level of 217.4% of net worth does not compare favourably to that of TELUS, which amounts to 146.9% of net worth. However, in most other regards, Rogers Communications comes out as the more defensive stock, with the key difference being the lower dividend yield. In short, Rogers Communications looks like the more stable stock to hold long term.

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2. NYSE:TU (TELUS)
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