

BCE Inc. (TSX:BCE) vs. Telus Corporation (TSX:T): Which Is the Better Buy?

Description

Canada's phone stocks have been some of the country's best performers over the last two decades for a number of reasons.

Our telecom sector has been largely protected by competition from a few different factors, which is always great for incumbents. These companies then reinvested those profits to gain a dominant share in wireless. Now they've successfully expanded into other similar industries like media, cable, and home security. Although the federal government has practically begged competition to show up and drive prices down, any serious player knows Canada will be a tough nut to crack.

Put all this together and it's obvious our telecom stocks enjoy one of the biggest moats out there. Once we identify a sector with that kind of competitive advantage, it only makes sense to invest in it. Should investors look for a leader like **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) or the slightly smaller competitor **Telus Corporation** ([TSX:T](#))([NYSE:TU](#))?

Let's take a closer look at each.

Business mix

BCE is a truly diversified media company. The company gets revenue from its wireless and wireline operations, as well as the plethora of media assets it owns. Approximately 15% of its revenue comes from this media division, which includes TV channels, radio stations, and professional sports teams. Unfortunately, these media revenues don't command the same kinds of margins as telecommunication services.

Telus doesn't have that handicap. It's much more concentrated on the telecom side. The company's cable TV service is still relatively small too, which means Telus is much less exposed to customers cutting cable TV. Telus' lack of exposure in this area is an advantage.

Recent performance

It may seem counter intuitive, but I like to invest in a stock that has done poorly lately. As long as I'm confident it'll come back, that is.

Despite rallying nicely over the last week or so, BCE shares are still down nearly 10% over the last year and more than 11% thus far in 2018. That's bad news for existing shareholders but exciting for folks looking to average down or initiate a new position.

Telus shares have done quite a bit better. They're up 1.6% on a one-year basis but have declined a hair over 4% so far in 2018. Investors should keep in mind Telus shares have done quite well since recent lows in January, 2016.

Valuation

Recent weakness in both stocks has pushed valuations down to pretty attractive levels.

Let's start with Telus. Shares trade at 18.7 times last year's earnings and at just 15.3 times forward earnings expectations. It currently trades at 2.8 times book value and 2.0 times sales.

BCE shares trade at 17.5 times trailing earnings and at 14.7 times analyst expectations for 2018's earnings. It currently trades at 2.9 times book value and 2.1 times sales.

Both of these stocks trade at nearly identical valuations. BCE is a little cheaper on a forward earnings perspective, but not enough to get excited about.

Dividends

Investors looking for the better current yield should choose BCE. Shares currently pay 5.6%, which is the highest dividend in the sector. Dividend growth has been solid over the last five years too, with the payout increasing from \$2.33 per share in 2013 to \$3.02 per share in 2018. That's an average growth rate of just over 5% annually.

Telus has offered better dividend growth over the past five years. Its payout has increased from \$1.36 per share in 2013 to \$2.08 per share in 2018. That's an average growth rate of 9% annually. Investors are only getting a 4.5% dividend today though, which is close to 20% less than the current yield BCE shareholders enjoy.

Which should you buy?

I don't think there's any reason to choose. Both telecoms are reasonably priced, offer nice dividends, and look poised to dominate Canada's wireless sector for years to come. Investors should buy both and enjoy the ride.

If you forced me to choose one over the other though, I'd probably pick Telus. Its lack of a media division is a big advantage, and I think it has slightly higher growth potential going forward.

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2. NYSE:TU (TELUS)
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