Should You Buy Telus Corporation (TSX:T) Stock for the High Dividend Yield?

Description

Telus (TSX:T)(NYSE:TU) is not the most popular stock on the TSX. Down about 8% year to date, it has struggled with new subscriber growth, limited coverage, and an increasingly competitive marketplace. Nevertheless, the stock is still growing its revenue and has one of the better dividend yields you'll find on the TSX.

So, is Telus worth buying (if only for the dividend)?

First, let's look at the stock's historical performance to see if it's truly out of the running for capital gains.

Average returns

In most short-term time horizons, Telus is a loser. It's down roughly 8% year to date, 4% over 12 months, and 4.6% over six months. Shares fell precipitously from September 27 to October 11 (about 8%) but have recovered somewhat since then.

If we take a long-term perspective, things look a little better. Over a five-year period, Telus shares are up about 21%. This is at least a positive return, although it's lower than the TSX average.

Can we expect Telus's returns to pick up steam?

To answer that question, we'll need to look at earnings growth.

Earnings

Telus grew its earnings at 0.3% year over year in its most recent quarter. As for fiscal year earnings, the company has posted modest (about 4% on average) earnings growth over the last four years. This isn't too bad, but it's not enough to power huge gains. So, ultimately, the question of whether or not to invest in Telus comes down to the dividend, which yields around 4.69% at the moment.

Is the dividend sustainable?

There's no denying that Telus's dividend yield is high right now. The only question is whether the company can keep it up. Data from Q1 fiscal 1999 to Q3 fiscal 2018 show steady and often large increases. In that 19-year period, the dividend went from $0.18 to $0.53 — an increase of about 200%. If Telus can keep this up for the next 20 years, then that may make up for lacklustre gains in the markets.

It's not, however, certain that it *can* keep it up: Telus's dividend-payout ratio is 83%, which means it's spending nearly all its earnings on dividends. The payout ratio could theoretically be sustained at that level indefinitely; however, Telus would need to improve its earnings growth to pull it off. And in an increasingly competitive marketplace with slowing subscriber growth, we may not see that happen.

Bottom line

Telus is a stock that's really all about the dividend. Historical returns, earnings growth, and profitability ratios all tend to argue against it. But if the dividend growth can be kept up, then that alone may make up for it. A 4.62% dividend yield *is* attractive, but it's not certain whether Telus can keep raising its dividends if earnings growth remains stagnant at 0.3% year over year. For now, I'd probably pass on this stock.

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Date
2025/08/18
Date Created
2018/11/10
Author
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