



## The 1 Reason to Own Telus Corporation (TSX:T) Stock

### Description

You might think that the one reason to own **Telus** ([TSX:T](#))([NYSE:TU](#)) stock is its attractive 4.7% dividend yield.

While the annual payout of \$2.18, the company's 16th quarterly increase since 2011, is very healthy indeed, from where I sit, it's not the best reason to own Telus stock.

The best reason, in my opinion, is that Telus is one of the only pure-play telecom and wireless companies in North America.

All four of the big players — **AT&T** and **Verizon** in the U.S. and **Rogers Communications** and **BCE** in Canada — all have significant media and content investments that aren't nearly as profitable and take away from the focus on wireless, TV, and internet.

Telus shareholders don't have such a concern.

### But what about the slowing growth?

Fool contributor Andrew Button believes that the healthy dividend is unsustainable given Telus is barely growing 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," Button [wrote](#) November 10. "This isn't too bad, but it's not enough to power huge gains."

Although Button is correct that Telus only grew Q2 2018 earnings by 0.3%, it did increase free cash flow by 27% to \$329 million from \$260 million a year earlier. In the second quarter, it paid out \$278 million in dividends, \$16 million higher than in the same quarter a year earlier. Yet, its free cash flow was \$69 million higher, leaving plenty to pay the dividend.

In the third quarter, Telus increased earnings by 9.9%, while also upping its free cash flow by 41%. Telus paid out \$293 million in dividends — \$24 million higher than a year earlier. Meanwhile, its free cash flow in Q3 2018 increased by \$85 million, leaving \$61 million after meeting the \$24 million

increase in dividends paid out.

Yes, it's true that Telus might use more of its free cash flow than BCE or Rogers to pay out dividends, but of the three, Telus's free cash flow is growing the fastest. In the first nine months of 2018, BCE's free cash flow dropped by 8%, while Rogers's increased by 3%. Meanwhile, Telus's free cash flow in the first nine months of the year rose 55%.

Free cash flow, not earnings, drives a capital-intensive business like a telecom.

## I like how Telus is positioned

Ross Healy, a portfolio manager in Toronto, like Button, feels that Telus isn't growing much.

"Telus is doing exactly the same thing that BCE was two years ago," Healy told the Cantech Letter recently. "Its earnings forecasts aren't really going anywhere and the stock is just bumbling along. This looks to me like Telus is tired and would like to come back a little, regroup and give people a fresh chance to buy it at a more reasonable price."

That was before Telus announced Q3 2018 earnings November 8 of \$0.74 a share — four cents better than the analyst expectations.

Leading the charge was strong growth for both its wireless and wireline businesses adding 199,000 new customers for wireless, TV, and internet — 31% higher than a year earlier.

Unless I'm missing something, Telus is growing in all three areas of its business. It's a big reason why I [said](#) Telus was a better buy than BCE early in 2018.

Heading into the final quarter of the year, unless Telus lays an egg, I'm confident that Telus will continue to outperform its non-pure-play peers.

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