

## Better Buy: Telus Corporation (TSX:T) or BCE Inc. (TSX:BCE)?

### Description

I recently heard a story that further cements why I'm so bullish on Canada's telecom providers.

A friend just got back from India after spending more than a month there. He brought his smartphone with him, choosing to just get a local sim card versus paying expensive roaming fees. He got long distance, unlimited texting, tons of data, and he had to pay an activation fee.

His total for the month? Approximately \$10.

Canada's wireless market is much different than India's, of course. We don't have the same kind of population density, and our telecoms have traditionally been protected from competition. Additionally, the average consumer here can afford to pay more. All of these factors combine to push prices much higher.

But ultimately, Canadians pay such a high price for wireless because our top players dominate the market. They keep prices up. This is bad news for consumers, but it's fantastic for investors.

Let's take a closer look at two of Canada's largest telecoms and see which one you should buy going forward — **BCE Inc.** ([TSX:BCE](#))([NYSE:BCE](#)) or **Telus Corporation** ([TSX:T](#))([NYSE:TU](#)).

### Business mix

On the surface, these companies look to be virtually identical. Both provide wireless service coast-to-coast while offering wireline services certain parts of the country. Telus dominates Western Canada, while BCE owns Eastern and Atlantic Canada.

There's one big difference though, and that's BCE's media division. Bell owns many of Canada's biggest television channels like CTV, TSN, and Comedy. It owns radio stations. And it owns a portion of iconic sports teams like the Toronto Maple Leafs, Toronto Raptors, and Montreal Canadiens.

There's just one problem. The media business simply doesn't generate the same kind of margins as the telecom services. Owning sports teams isn't necessarily a bad investment; it just isn't as good as being a pure telecom.

Telus gets the advantage here for focusing on wireless, internet, and television.

### Valuation

Telus trades at 18.6 times trailing earnings. The bottom line is expected to go up next year, meaning its forward P/E ratio dips a little to 15.2. It trades at 2.8 times book value and 2 times revenue.

BCE is a little cheaper, trading at 18.3 times trailing earnings. It's expected to post some earnings

growth next year, which drops its forward P/E ratio to 15.4. It trades at 3 times book value and 2.2 times sales.

There's no clear winner on valuation. Both companies are fairly priced considering what they bring to the table.

## Dividends

Canada's top telecom stocks have long been favorites of dividend investors, and it's easy to see why. Both Telus and BCE offer great current yields with solid growth histories.

Let's start with Telus. It offers a current yield of 4.7% with an 87% payout ratio. The company has more than doubled its payout since the end of 2010, increasing quarterly dividends per share from \$0.26 to \$0.545 today.

BCE offers a better dividend today with a current yield of 5.4%. Its payout ratio is close to 100% of earnings, but that is expected to drop next year as earnings increase. It has increased its dividend from \$0.4575 per share quarterly at the end of 2010 to \$0.755 today.

In short, BCE offers the better yield today, but Telus has traditionally been the better dividend-growth play.

## Growth potential

BCE has shown a willingness to make acquisitions, while Telus is much quieter in the space. It prefers to grow organically.

Since 2011 BCE has acquired assets like CTV Inc., the part of Bell Aliant it didn't already own, Manitoba Telecom Services, and AlarmForce. Telus only made one notable acquisition during that period, buying Public Mobile in 2013.

Assuming both BCE and Telus can deliver similar organic growth rates, the edge in overall growth potential goes to BCE. It has no problem acquiring growth.

## Which should you buy?

Personally, I found it too tough to choose, so I own a little of both companies in my portfolio.

If you forced me to choose one over the other right now, it would probably be Telus over BCE. I thought BCE was a great buy closer to \$50 per share, but now that shares have moved up to \$56 each I think investors will be ever so slightly better off if they buy Telus today. Telus investors are also getting better dividend growth, which should work out nicely in the long run.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:TU (TELUS)
3. TSX:BCE (BCE Inc.)
4. TSX:T (TELUS)

## **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## **Category**

1. Dividend Stocks
2. Investing

## **Date**

2025/08/24

## **Date Created**

2018/12/16

## **Author**

nelsonpsmith

default watermark

default watermark