5G Benefits These Telecoms — But Are They Buys Right Now?

Description

5G networks are expected to be much faster than 4G networks. It's estimated that 5G networks could increase the capacity of current LTE networks by 100 times and theoretically increase the speed of transmission by 1,000 times.

So, 5G networks allow quicker transfer of large files and realtime data, which will be great news for data-intensive applications, such as ones that use virtual reality, and the world of the Internet of Things, in which things communicate with each other in real time.

However, we're not quite at 5G yet. Much more investment is still required, especially since it looks like there's a slim chance that Canada will use **Huawei**'s 5G technology because of data privacy concerns. In fact, last month, *The Toronto Star* reported that it's going to cost the Canadian telecom industry — mostly on **BCE** and **TELUS** and less so on **Rogers Communications** (TSX:RCI.B)(NYSE:RCI) — $1 billion to remove the Huawei equipment that the telecoms already use in their networks.

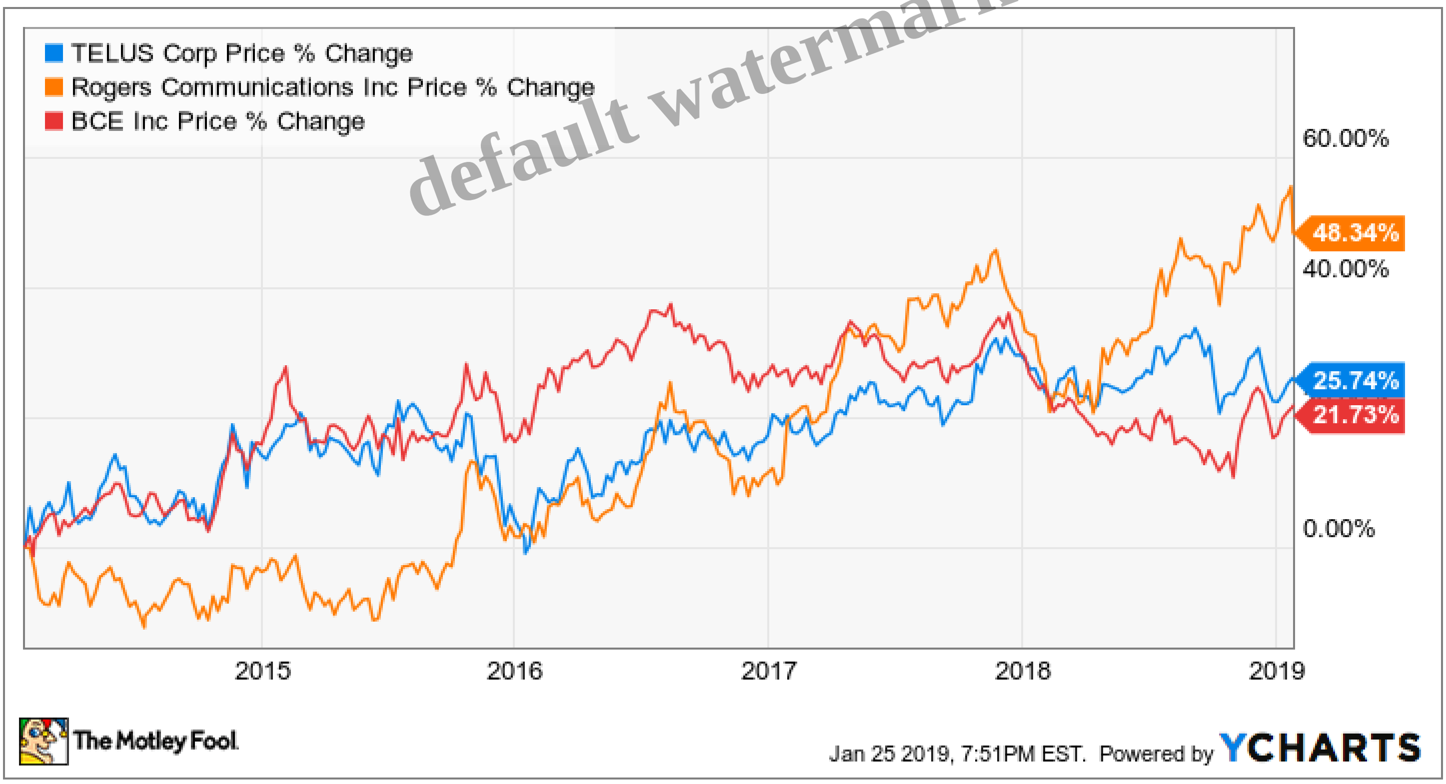
Not all is lost, though. There's still Finland-based **Nokia** or Sweden-based **Ericsson** that can help our telecoms build the 5G network. The federal government had made commitments to invest in 5G technology. The latest news has it that the government intends to provide up to $40 million of fundingto Nokia for 5G technology development.

Eventually, the Big Three telecoms, BCE, Rogers, and TELUS will benefit. Investing in the telecoms is a conservative way to invest in 5G, as you can get periodic returns from their nice dividends. Of the three, Rogers seems to be the most well run.

What's so good about Rogers Communications?

Rogers has been a great capital allocator lately. Instead of periodically increasing its dividends like its peers, Rogers has chosen to go against the convention by reinvesting more into the business.

Here are some key metrics as proof. Rogers' recent return on assets (ROA) was 6.6%, which beat its five-year ROA of 5.3%. Its recent return on equity (ROE) was 27.3%, which beat its five-year ROE of 25.7%. For both BCE and TELUS, their recent ROA was less than their five-year ROA, and their recent ROE was 17.2% and 16.3%, respectively — meaningfully lower than Rogers.



T data by YCharts. The five-year price actions of TSX:RCI.B, TSX:BCE, and TSX:T.

Rogers' higher returns have translated to higher total returns for its shareholders. Its five-year rate of return is nearly 72% or 11.5% when annualized. In comparison, BCE's five-year rate of return is nearly 49% or 8.3% per year on average. And TELUS' five-year rate of return is about 42% or a compound annual growth rate of 7.3%.

Investor takeaway

In the last five years, Rogers has outperformed its peers in terms of total returns, but it generated 33% less dividend income than BCE and 20% less income than TELUS over the period.

Investors need to determine if they care more about dividend income or total returns. If you care more about dividends, consider BCE on the dip. If you care about total returns, consider Rogers on the dip.

Right now, the three telecoms are near their fair valuations. To get more value for your buck, consider your favourite telecom on the next meaningful correction.

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