Which Is the Best All-Round Canadian Telecom Stock for New Investors?

Description

With a mix of dividends and some defensive properties, Canadian telecom stocks are a mainstay of the TSX index – but are they good value for money, or do so-so balance sheets and mediocre balance sheets rule them out as strong choices? Newcomers to investing in the stock market may want to review the data for some of the best Canadian telecom companies before buying shares.

TELUS (TSX:T)(NYSE:TU)

Looking at TELUS' one-year past earnings growth of 16.3%, we have fairly good headway, though it trails the North American telecom industry average of 102.5% for the same period. That said, it's still an improvement on its own 0.8% five-year average. An 8.3% expected annual growth in earnings is somewhere between the two in-house averages and offers little to tempt the casual growth investor, however.

With a debt level of 140.8% of net worth indicating a mediocre balance sheet, investors with little appetite for risk may want to look elsewhere before packing their TFSA, RRSP, or other account, though a dividend yield of 4.73% does look tempting. Valuation for TELUS could be better: a P/E ratio of 18.3 times earnings is acceptable, though its P/B of 2.8 times book is a little high.

Rogers Communications (TSX:RCI.B)(NYSE:RCI)

One of the most famous TSX index telecom stocks, Rogers Communications' one-year past earnings growth of 20.3% exceeds the global telecom average, which was negative overall for the past 12 months. It's been a good year for the firm, which exceeded its five-year average past earnings growth of 4.2%. Rogers Communications' 8.4% expected annual growth in earnings matches that of TELUS, and again, doesn't give growth investors much to work with.

Again, balance sheets are an issue with telecoms stocks, and Rogers Communications carries 202.3% of net worth in debt. Passive income investors need to weigh whether the risk is worth the long-term investment. Meanwhile, for investors focused on value, a P/E ratio of 17.7 times earnings is fine, but that bloated P/B of 4.5 times book tells a different story: one of overvaluation in terms of assets.

BCE (TSX:BCE)(NYSE:BCE)

While TELUS and Rogers Communications were cleaning up, BCE saw a one-year past earnings slump of -3.9%. Even its five-year average past earnings growth of 7% isn't significantly high, and isn't due to budge even a single percentage point over the next one to three years.

Of the three stocks listed here, BCE carries the lowest level of debt at 115.7% of net worth. In terms of value for money, a P/E of 18.6 times earnings isn't too bad for a high profile TSX index ticker, while its P/B ratio is between those of the two previous stocks at three times book.

The bottom line

The dividend yield of 2.83% on offer from Rogers Communications is a little low for the price and the inherent risk lurking in the balance sheet. Passive income investors may want to go for BCE’s higher dividend yield of 5.3%, healthier balance sheet and lower per-asset valuation. However, given their secure position in the Canadian investment landscape, any of the three stocks listed here would make for a sound, defensive dividend play.

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2. NYSE:RCI (Rogers Communications Inc.)
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