



4 Risks to Telus Corp's (TSX:T) Dividend

Description

In terms of price stability, telecommunication stocks like **Telus** ([TSX:T](#))([NYSE:TU](#)) are rock solid. Telus stock has been basically flat since early 2013, with a few peaks and troughs in between. However, that doesn't mean the company has eroded value for shareholders over that period. Instead, its dividend rate has been far higher than the rate of inflation and the average yield on Canadian government bonds.

In other words, Telus is the quintessential income seeker's stock, paying out nearly every penny it earns from a stable stream of cash flows every year. That's because Telus is one of the five largest telecommunications companies in the country and holds 20% market share.

Over the years, the top five players in Canada's wireless market have tightened their iron grip on the sector. That's what makes this space a remarkably fertile ground for dividends.

Telus investors, for instance, can expect a 4.66% forward dividend yield and an 82% or higher payout ratio. Although that dividend rate has been stable for the past five years, investors shouldn't take it for granted. Here's a look at some sustainability measures to see if Telus can continue splashing out cash over the next five years.

Dividend coverage

The dividend-coverage ratio is simply the inverse of the payout ratio. As the name suggests, this ratio should indicate how much of the annual dividend is covered by the company's net income. For Telus, the coverage ratio is 1.22, which means earnings are just 22% higher than dividends.

However, the coverage ratio seems much lower when you adjust the trailing 12-month free cash flow for leverage. This leverage-adjusted cash flow is 4.5% lower than the annual dividend.

Debt

Another critical factor for dividend sustainability is debt. If the debt burden is too large or expanding, investors may eventually have to concede the dividend to interest and principal repayments. Telus's

total debt currently stands at \$14.21 Billion, or a third higher than equity. Debt is also nearly nine times greater than annual net income.

Cash

The amount of accumulated cash on Telus's book, \$415 million, wouldn't even cover last year's interest payment, \$625 million. This cash pile is also a fraction of the annual dividends. In other words, the management is currently servicing debt from income, and a sudden plunge in earnings will have an immediate impact on dividends.

5G rollout

The biggest near-term capital expenditure telecom companies can expect is the deployment of next generation wireless technology. The 5G rollout over the next few years will demand a major chunk of the market leaders' investment budget. With the ongoing tensions with China and Prime Minister Justin Trudeau's potential ban on Huawei products, these costs could rise significantly.

Bottom line

High debt, low cash, low coverage, and higher-than-expected costs of adopting new technology are just some of the risks Telus's dividend faces. There's no reason to believe management hasn't considered these risks and isn't adequately prepared with contingencies, but income-seeking investors need to watch these factors closely if they're in it for the long haul.

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