



## Why I'd Be Worried Sick If I Owned Telus (TSX:T) Stock

### Description

**Telus** ([TSX:T](#))([NYSE:TU](#)) has been a [popular](#) dividend darling among conservative Canadian investors for quite some time now. With a chunky 4.6% dividend yield and a more promising growth profile relative to some of the more bloated telecoms in the space (yes, I'm looking at you, **BCE Inc.**), it's not a mystery as to why the name is one of the go-to picks for those with extra funds sitting around in their RRSPs.

Despite the somewhat predictable, foolproof nature of Telus' business and the astounding results that have been posted since the Financial Crisis, there are many reasons to believe that the road that lies ahead of Telus will be a heck of a lot rockier than it's been over the past decade. As such, the company may soon find itself between a rock and a hard place, and Telus stock, a low-volatility income play (with a 0.56 three-year beta), may quickly turn into a rollercoaster ride like its bigger brother.

You see, Telus is on the cusp of a 5G arms race with a potentially disruptive fourth player ([Shaw Communications](#)) that's moving deeper into its turf. The rising competition will surely be bad news for Telus' subscriber retention rates, and with infrastructure spending poised to soar in a more competitive, rising interest rate environment, I believe the stage is set for Telus to face a mild 10-15% correction.

Not only is Telus slated to beef up its capex on 5G merely to keep up with the Jones', but the risk of a potential Huawei 5G wireless infrastructure ban will have material consequences for Telus, as well as other Canadian telecoms who've embraced Huawei and its more affordable 5G infrastructure.

"A decision prohibiting the deployment of Huawei technology without compensation or other accommodations being made by the government of Canada could have a material, non-recurring, incremental increase in the cost of Telus' 5G network deployment and, potentially, the timing of such deployment," said Telus.

While there's no question that such a ban could raise Telus' 5G that much further, I believe investors are discounting the impact of a potential ban of Huawei from Canada's 5G networks.

Not only is cybersecurity an obvious risk of Telus' use of Huawei's equipment, but Telus' reputation

with Canadians could take a hit even if there's no ban. As a result, Canadians who are opposed to Huawei's incorporation into Canadian networks could simply flock to a non-Huawei-based 5G network with one of Telus' competitors.

The way I see it, the whole Huawei ordeal is a lose-lose situation for Telus (and BCE who's also jumped on Huawei's 5G bandwagon). Either Telus will have to deal with upped expenses (possibly well north of \$1 billion), or it'll lose the trust of those Canadians who are concerned about Huawei and the potential for serious cybersecurity risks.

## Foolish takeaway on Telus

At 17.7 times trailing earnings, Telus is an easy pass. The stock is far too expensive when you consider the Huawei risks, the more competitive landscape on the horizon, and the considerable amount of debt that's sitting on the balance sheet (1.3 debt-to-equity as of the latest quarter). The dividend payout, while stretched, is still safe, but investors shouldn't expect the same magnitude of dividend growth moving forward.

Stay hungry. Stay Foolish.

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