



## How the Huawei 5g Controversy Could Affect Telus Corp (TSX:T) Stock

### Description

**Telus Inc** ([TSX:T](#)) is a favoured telecom stock among Canadian dividend investors. Although its returns haven't matched those of **Rogers Communications** in past years, it offers a generous dividend that yields 4.7% and has been steadily rising. This [dividend growth](#) means that, even with Telus' somewhat sluggish returns, investors can earn some serious income from the stock by buying and holding.

Recently, however, Telus has come out swinging against a proposed government action that it says could harm its business. Following numerous OECD nations [banning Huawei](#) from their 5G networks, Trudeau has said that he's considering doing the same, citing security and spying concerns. Shortly after Ottawa made the announcement, Telus fired back, saying the move would increase its network costs and harm its business.

If Telus' concerns are valid, then the proposed government action could hurt its stock. To determine whether that will be the case, we need to look at the company's main complaint.

### Increased network costs

The Huawei 5g controversy centres around whose components will be included in Canadian 5g networks. Currently, there are three major suppliers of 5g equipment: **Nokia**, Ericsson and Huawei. Huawei is by far the cheapest of the three suppliers. However, a U.S. led push against the company has many governments banning it from bidding on 5g infrastructure projects.

Telus' main concern about banning Huawei from Canadian 5g networks is that it would lead to increased network costs. Because Huawei is the cheapest of the three major 5g suppliers, Telus will incur higher infrastructure costs if the other two are the only options, which would result in lower margins on the company's internet and mobile services. Another issue is the fact that Telus is already in 5g pretrial stage with Huawei, and would likely incur costs when being forced to sever ties with the Chinese company.

## Potential revenue loss

Another possible (but remote) issue with Huawei being banned on 5g networks is a loss of revenue. If Telus can't get Huawei on its 5g network, then it will have to charge more to customers because of the increased network costs that come from using Nokia and Ericsson. This could possibly turn customers off high-end plans that include 5g. If many customers avoid these plans, that will not only represent loss of revenue, but also a lower ROI on money spent building the 5g network.

## Bottom line

Of all the Canadian telecom companies affected by the likely Huawei ban, Telus' reaction was perhaps the most dramatic. Not only did the company sharply criticize the government, but it demanded compensation as well, which isn't surprising. Unlike Rogers, Telus is already working with Huawei on 5g, so it stands to lose out considerably more than its competitor. It's still unclear whether Telus will get any of the demanded "compensation" should the Huawei ban go through. What's certain is that the move will cost the company money.

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### Date

2025/08/14

### Date Created

2019/03/18

### Author

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