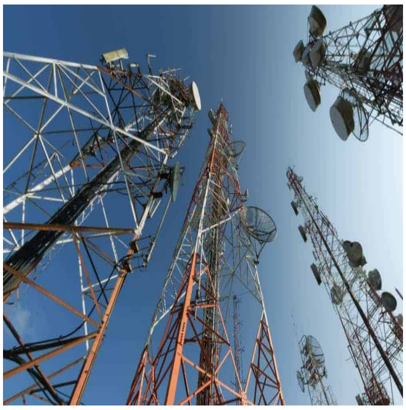

Why Telus Corporation (TSX:T) Should Be Your Favourite Telecom Stock Today

Description

Many investors — myself included — own Canada's top telecom stocks because we like the stickiness of their customer base, the necessary nature of wireless and wired internet connections in today's world, the succulent margins from supplying cable TV and home phone to millions of customers (even if these businesses are slowly declining), and much more. There's a reason why these stocks are often mentioned as among the best in the country.

The question for investors switches from "should you buy a telecom stock?" to "which of Canada's top telecom stocks should you buy?" I think the answer is obvious. Here's the case for adding **Telus** (TSX:T)(NYSE:TU) to your portfolio over its peers today.

Better growth

Telus recently reported full-year 2018 results, which were highlighted by overall revenue growth of 6.3% and a 3.3% increase in adjusted net income. The top line was helped by both increasing customer count by more than 3% and hiking prices to existing customers, while earnings were hurt a little by increased expenses.

2019's results should also be solid. Telus is hoping to increase revenues by 3-5% and has plans to increase adjusted earnings by 2-10% this year. Note that Telus has traditionally been able to hit the high end of its targets in the past, so I like its chances of posting a solid year in 2019.

These growth numbers are better than what competitors are posting. **BCE** (TSX:BCE)(NYSE:BCE), for instance, posted 3.4% revenue growth last year, while it saw earnings decline slightly from $3.20 per share in 2017 to $3.10 per share in 2018.

Telus can grow at a faster rate than its competitors for a few different reasons. Firstly, it is the smallest of the so-called Big Three, which means it has ample chances to take market share away from competitors. And after years of primarily focusing on Western Canada, Telus is gaining some pretty serious recognition from folks east of Manitoba.

This growth should continue to translate into impressive dividend gains. Perhaps not quite as strong as the 7-9% dividend-growth rate target management set through 2019, but investors should still see solid growth in their payout going forward. Not bad for a stock that already yields 4.5% today.

Better business mix

Telus is a pure telecom, while its two largest competitors dabble in the media business, owning TV channels and radio stations. The big problem with this increased diversification is these media assets aren't great businesses — at least when compared to telecom.

For further evidence of this, we just have to look a little closer at BCE's most recent annual report. Bell's wireless division posted a 42.3% operating margin last year. The wireline business posted a 41.7% operating margin. And in last place by a mile comes the media division, which had a operating margin of 22.2%.

It's not that media is necessarily a bad business. It's not. But by focusing on the wireless and wireline sides of its business, Telus is giving investors a better return on their capital. I like that discipline.

Valuation

Despite having what I view as a better growth path and a better business mix, Telus's valuation is basically the same as its peers. Shares trade at 16.4 times expected 2019's earnings, versus BCE, which trades at 16.7 times expected earnings. Other competitors trade at approximately the same level.

The bottom line

I believe in being a selective telecom buyer. Unless one of these stocks becomes a screaming buy — like BCE was when shares flirted with $50 each in September — the best strategy is to buy the finest name in the sector. Telus is that name today.

If you load up on Telus shares today, you'll be thanking yourself in a decade or two.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BCE (BCE Inc.)
2. NYSE:TU (TELUS)
3. TSX:BCE (BCE Inc.)

4. TSX:T (TELUS)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/08/26
Date Created
2019/03/22
Author
nelsonpsmith