1 Hidden Reason to Buy Telus (TSX:T) Stock

Description

There's a lot to like about **Telus Corporation** (TSX:T)(NYSE:TU), which has cemented itself as one of Canada's top blue chip stocks.

The wireless sector is a fantastic business to be in. Telus (and its competitors) regularly post wireless margins in excess of 40%. The sector as a whole is growing as well, with Telus gaining thousands of subscribers each quarter. The company also slowly grows average revenue per user and does an excellent job of retaining current customers, consistently posting the lowest churn rate in the entire sector.

Growth should continue over the next few years, especially as the company rolls out ultra-fast 5G service. This will only deepen our collective addiction to wireless data, and you know the data providers will charge a premium for this faster internet.

The other parts of Telus's business continue to grow, too. Wired internet is a necessity these days, and most people aren't happy with a basic package. It's hard to stream video with a cheap internet package. Telus has made significant investments to provide their customers with the bandwidth needed to do whatever they please online.

And then there's Telus's television service, which is still growing despite Canadians increasingly choosing to cut the cord and cancel their cable subscriptions. Compare that to chief rival **Shaw Communications**, which is losing between 3-5% of their television customers annually.

But at the end of the day, both of Telus's main rivals also have a lot of these same advantages. What exactly separates it from the pack? Let's take a closer look at what I view as Telus's secret sauce, the big advantage it has over its peers that makes it Canada's top telecom stock.

A pure play

It's easy to see why a television operator would diversify into owning media assets. If you own the channels shown on your cable service, then you essentially get content for free. Assuming those underlying channels are profitable, of course — they usually are.

But the dirty little secret of the media business is that it's kind of crummy when compared to the telecom part itself. Let's look at **BCE's** latest results as an example.

BCE's telecom divisions — including wireless, wireline, and television services — all posted margins in excess of 40%. The company's media division, meanwhile, had a 22.1% EBITDA margin in the company's most recent quarter. That's a significant improvement versus last year, which saw the media division post an EBITDA margin of closer to 17%.

It's easy to see. Owning television channels isn't necessarily a bad business, but the asset class pales in comparison to the telecom part, which is a fantastic business.

Media is also slowly shrinking as more people get their content fix from online-only sources. Yes, Canada's top channels have done a good job of evolving with the times, but nobody would argue that network television is a growth business in 2019.

Telus isn't burdened with an inferior division as its rivals are. Both BCE and **Rogers** own plenty of media assets, while Shaw is willing to accept much lower wireless margins in an attempt to grow its Wind Mobile subsidiary. I would argue that Telus is worth a premium valuation because of this, yet Telus only trades at 16.9 times forward earnings expectations at writing. BCE, meanwhile, trades at 17.4 times forward earnings.

The company also offers terrific dividend growth potential, recently telling shareholders that it plans to increase quarterly dividends by 7-10% annually between now and 2022. Telus's top execs are bullish, and shareholders should be too.

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