TFSA Passive-Income Investors: Should You Buy Telus (TSX:T) Today?

Description

Telus (TSX:T)(NYSE:TU) is one of those market darling telecom plays that most passive-income investors don't think too much about. Many retirees, risk-parity investors, conservative income investors, mutual funds, and ETFs continue to buy and hold the name for the juicy dividend (currently yielding 4.5%), the relative stability, and the lower degree of volatility relative to the broader markets (something that's sought after in these times of geopolitical turmoil).

It's apparent that many folks have fallen in love with Telus over the years, as shares have rocketed out of the last recession, posting significant capital gains, dividends, and dividend growth. If you have a look at the longer-term chart, though, you'll see that the momentum has begun to slow down in recent years, thanks to numerous variables, most notably higher interest rates, which have been a headwind for all capital-intensive telecoms.

While the slowed share price momentum may not be ringing alarm bells in the ears of investors, it's important for those investors seeking a similar magnitude of gains going forward to reset their expectations when it comes to Telus or any other Canadian telecom behemoth.

The industry environment was accommodating in the past, but the times are changing! Borrowing costs are likely going to trend higher over the medium term, new telecom tech (5G and continued rollout of fibre-to-home) are causing upped expenses, but, most importantly, the Canadian wireless triopoly may be coming to an end as competition heats up with **Shaw Communications** making an aggressive move into Telus's turf, both on the wireline and wireless.

While Telus is continuing to beat out its peers when it comes to top-line growth and better margins, I believe the company has merely won a few initial battles in a war that'll wage on for many years. Moreover, it appears that investors who've "fallen in love" with the name over the past decade are focusing too much of their attention on Telus's recent results (where the puck has been), rather than the potential headwinds that lie ahead (where the puck is headed next).

Sure, the 11,000 mobile subscribers added in the first quarter was impressive, but as Shaw has the opportunity to catch up (I suspect it will after disposing the last of its media assets), Telus's advantage of being the first to select markets with new telecom tech will be short-lived, and margins will eventually flatline and potentially pullback as the top line comes under pressure.

While Telus has done a commendable job over the past decade, I'm not a fan of the competitive landscape that lies ahead, nor am I optimistic about the trajectory of earnings with Shaw now putting its foot to the gas with its wireless business in Freedom Mobile.

Simply put, if I were a Telus shareholder, I'd be very afraid of Freedom Mobile, as federal regulators praise the new entrant as a golden child while setting hurdles and roadblocks in front of the incumbents. Add the potential for even lower switching costs into the equation, and I think the days of outperformance are coming to an end. For a glimpse of what to expect over the next decade with the Big Three incumbents, I think investors ought to take a look at the charts of U.S.-based telecoms, because that's where Canada's telecom scene may be headed.

While the 4.5% yield may be enough for most conservative passive-income investors, I'd discourage investors seeking outsized total returns from picking up the stock at today's valuations. They're a tad rich, and investors have yet to readjust their expectations with the name.

If you're comfortable with collecting your dividend and aren't expecting 10% in capital gains every year, however, Telus is still an excellent holding to own for the long term.

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