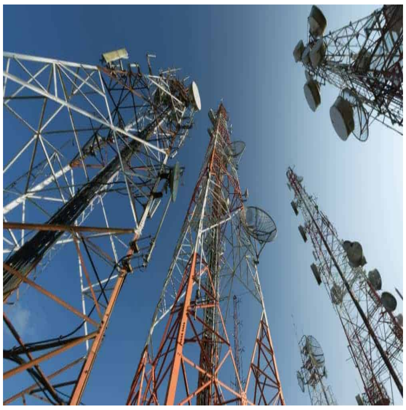

Better Buy: Telus (TSX:T) or BCE (TSX:BCE) Stock?

Description

Canada's telecom industry is an attractive one for investors. The Big Three — **Telus** (TSX:T)(NYSE:TU), **BCE** (TSX:BCE)(NYSE:BCE), and **Rogers Communications** — have a monopoly in Canada. Although there are others who are trying to break their hold on the industry, the three still account for 80% of the wireless sector.

Of the three, Telus and BCE are Canadian Dividend Aristocrats. That is to say, they have a history of raising dividends for at least five consecutive years. This has made them preferred targets over fellow oligopoly player Rogers. Which of the two is a better buy today? Let's take a look.

Top stock for income

The main reason to own and hold either company is for their attractive dividends. BCE has the highest starting yield at 5.29%, while Telus isn't far behind with a 4.43% yield.

As mentioned, both also have a history of raising dividends. BCE has a 10-year streak, while Telus is in the top 20 in Canada with an impressive 15-year dividend-growth streak. Over the past five years, Telus has averaged 9.1% annual dividend growth. This is much higher than BCE's 5.3% average growth over the same period.

Advantage: The gap between BCE's and Telus's yield is not wide enough to outweigh Telus's strong dividend growth. Telus has also recently reiterated 7-10% dividend growth through 2022. As such, it edges BCE in the income department.

Top stock for growth

As Canada's two largest telecoms, growth is an important metric. The wireless boom is now in the rear-view mirror and, along with it, double-digit growth rates. That being said, growth is an important factor that drives further innovation and also underpins growing dividends.

Over the past five years, Telus has grown earnings by 5.48% annually. BCE's growth has been far less impressive, as it has averaged only 0.98% average annual earnings growth. What does it look like moving forward?

Once again, Telus is expected to eclipse BCE's growth rate. Over the next five years, earnings are expected to grow by a healthy 7.48% on average, while BCE is only expected to post 4.12% average annual earnings growth.

Advantage: There is a clear winner here, as Telus has provided and is expected to post the higher growth rates.

Top stock for value

There isn't much that separates either company in terms of current valuation. They are both trading at approximately 19 times earnings and around three times book value. Although these are slightly below historical averages, neither are particularly cheap.

Thanks to Telus's higher growth rates, it looks cheaper than its competitor on a forward basis. It is trading at 15.75 times forward earnings and has a P/E to growth (PEG) ratio of 2.21. This is almost half of BCE's high PEG ratio of 4.13.

Advantage: Telus narrowly edges BCE in terms of valuation. It is important to note, however, that both companies appear to be fair to overvalued at today's prices.

Winner

Take out the broom: Telus has swept BCE in all three categories — growth, income, and value. As such, Telus is the better overall buy. The only area in which it trails BCE is in terms of yield. However, it has averaged a much higher dividend-growth rate, and the yield gap has narrowed over the years. It is a trend that appears as though it will continue moving forward.

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