TFSA Alert: Some of the Best Dividend Stocks Are Losing Steam

Description

Investing in telecom stocks has been one of the best bets for long-term investors who use their Tax-Free Savings Account (TFSAs) to accumulate wealth. These companies pay regular dividends that grow steadily coupled with decent growth in their earnings.

But that win-win scenario for TFSA investors could be under threat in the short run, as an escalating price war cuts their margins and erodes profitability.

Rogers Communications reported this week that it added fewer net wireless subscribers in its fiscal second quarter, as the price war escalated. Sales also missed analysts' forecast, coming in at $3.78 billion, while revenue at the wireless division rose just 1% to $2.24 billion.

The decline comes after rival **Shaw Communications's** regional carrier Freedom Mobile added 62,000 new subscribers in the three months ended May 31, up from 47,000 during the same period in 2018.

Shaw has been quickly adding market share, accounting for 37% of the new postpaid subscribers acquired by the top four Canadian telecoms providers in the first quarter of 2019, according to *Bloomberg Intelligence* data.

So, which telecom operator is next in line to report weaker earnings? In my view, investors should definitely keep an eye on **Telus** (TSX:T)(NYSE:TU) and **BCE** for further signs of weakness in the sector due to escalating competition and its impact on the profitability.

The companies' stock prices show that BCE, the largest telecom operator in Canada, is faring much better in this environment with its stock still up 11% year to date, while other companies are increasingly coming under pressure. Telus stock, for example, is down about 4% in the past three months.

For Telus, another risk that the company is facing is a possible ban for using equipment by Chinese vendor **Huawei Technologies**. Telus has a long relationship with Huawei and plans to use its gear in the deployment of its 5G networks.

Canada's telecom operators have been dragged into the trade dispute between the U.S. and China. Telus has publicly warned of a material risk of higher costs if the Canadian government bans wireless carriers from working with Huawei.

Ottawa is conducting a cybersecurity review of the use of the Chinese company's gear for 5G networks. Three of Canada's intelligence allies — the United States, New Zealand, and Australia — have already announced restrictions on Huawei equipment for the build-out of next-generation cellular service.

Bottom line

Canada's telecom stocks have been solid income earners for TFSA investors, but it's clear that their profitability might come under pressure in the short run due to a more robust competitive environment. But that doesn't mean that investors should sell these stocks. These companies have the ability and financial muscles to ride through a tough time.

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