Long-Term Investors: Buy This Telco Stock and Forget About It

Description

The telecommunications business is extremely competitive, but it's competitive for a reason, as it's extremely profitable. Throughout the last decade, demand for mobile phones and the services that come with them have exploded, and the infrastructure needed has created an industry dominated by a small number of large companies.

These companies, though very competitive with each other, are able to make tons of cash flow — and return most of it to shareholders. Each company would be a decent investment, but the absolute best is **Telus Corp** (TSX:T)(NYSE:TU).

Telus' wireless network now has the best service in the nation. It has the fastest, largest and most reliable network. **Bell** and Telus share towers, which are far better than **Rogers'** in the current 4G-LTE networks.

Proof of its super reliable network is evidenced when looking at the company's incredibly low mobile phone churn rate of just 1.01%. Just over 1% of its existing customers are leaving to sign up with other companies, leading Telus to estimate its average lifetime revenue per subscriber to be more than $7000.

The second quarter saw the company add 154,000 new customers in the wireless segment; 82,000 of those were mobile phone customers.

One thing to note is that Telus has stopped reporting its number of prepaid and postpaid subscribers, which is the industry norm.

Instead it's now reporting mobile and non-mobile subscribers. I think this is a positive sign that Telus is looking to the future of the telecommunications business, pushing wireless services other than mobile phones.

The earnings before interest, taxes, depreciation and amortization (EBITDA) for the wireless segmentin the second quarter was $924 million, up 5.1% year over year. The average bill per user (ABPU) was also up, to $73.43.

The wireline segment's EBITDA was $478 million, up about 3.5% year over year. The company reported total EBITDA of $1.4 billion for the quarter. The adjusted earnings per share (EPS) was $0.69, which was up 4.5% year over year.

While these earnings weren't incredibly substantial, it shows Telus is on its defined path to continue to invest in its infrastructure and grow its business.

Telus is committed to increasing the efficiency of its operations, continuing to scale as it grows. It's focused on continuing to improve its network and to gain more users.

It's also aiming to increase the utility that current users enjoy, resulting in higher customer satisfaction and lower customer churn.

The company continues to build out its PureFibre, fibre optic connection. Telus has added over 390,000 new locations to its network in the last four quarters. It now has over two million premises with access to the PureFibre network.

This build-out will be key going forward as the push to 5G becomes stronger. Telus has been positioning itself well for the future, with all this costing about $2.9 billion in capital spending the last 12 months.

One thing to watch out for is the introduction of unlimited plans across the board now.

As competition continues to heat up across Canada, and with each company now offering unlimited plans, it seems like it may push companies' ABPU lower, which will force companies to continue to get creative with their pricing. That remains to be seen, however.

The dividend is also another reason why Telus is such a great investment. Since 2004, an incredible $17 billion has been returned to shareholders, which is nearly $28 a share.

Currently the dividend pays $2.25 a year. It has already been increased more than 7% this year, and Telus is targeting a 7-10% increase annually for the next few years.

All in all, with a P/E ratio around 16, it's beginning to trade near the low end of its normal range. A further drop in the stock price could be very opportune for would-be investors. At the moment it's definitely the best long-term investment of the big three.

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