Should You Buy Telus (TSX:T) Stock for Your TFSA?

Description

Canadian investors are building self-directed TFSA stock portfolios to meet a number of financial goals.

Retirees are turning to dividend stocks to benefit from yields that outpace GICs, while providing tax-free additions to their company pensions, CPP, and OAS payments.

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Younger investors are using dividend stocks to build retirement funds. One popular strategy is to use the distributions to buy additional shares to harness the power of compounding.

In both scenarios, Canadians are search for reliable stocks that pay attractive dividends and offer a shot at some upside gains along the way.

Let’s take a look at **Telus** (TSX:T)(NYSE:TU) to see if it deserves to be on your TFSA buy list.

Earnings

Telus reported solid results for Q2 2019. The company generated revenue of $3.6 billion, representing a 4.2% increase over the same period last year. Adjusted net income came in at $416 million, which was roughly on par with Q2 2018 once specialty gains are pulled out of the report. Actual net income rose 31% to $520 million, but that included a favourable income tax boost.

The more significant numbers are found in the strong subscriber additions. Telus added 186,000 new customers in the quarter, with the mobile, TV, and internet segments all showing good growth.

Telus puts significant resources into ensuring its customers have a positive experience and that is turning up in the results. The company’s mobile phone churn rate of 1.01% is the lowest in the industry. Acquiring new customers is expensive, so the low churn rate is important for driving stronger margins.

Free cash flow dipped 1.5% to $324 million in the quarter due to higher taxes and higher debt costs. Nonetheless, Telus remains a very profitable company.

Dividends

The solid free cash flow generation should support the company's target of raising the dividend by 7-10% per year through 2022. Telus has great history of steady dividend hikes and investors should feel comfortable with the guidance.

Opportunities

Telus doesn't have a media division, but it has invested heavily in building a business focused on digital disruption in the health industry. Telus Health is already a leader in Canada providing digital solutions to doctors, hospitals, and insurance companies.

The group also owns a network of private health clinics across Canada that cater to corporations and wealthy families. Telus Health represents a small part of the total revenue picture today, but could become a major driver of growth and profits in the coming years.

Should you buy?

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The telecom stocks should continue to find favour with investors in the medium term as interest rates in Canada and the United States are expected to fall. When interest rates decline, the rates offered on GICs also drop. This tends to push more yield investors to the dividend plays, including Telus.

Telus trades at $48 per share at writing, which is about $3 off the 2019 high. Investors who but the stock today can get an attractive 4.7% yield. With interest rates expected to decline in 2020, it wouldn't be a surprise to see the stock take a run at $55 by the end of next year.

Telus tends to hold up well when the global market hits a rough patch.

If you're searching for a reliable dividend stock to buy for your TFSA today, Telus deserves to be on your radar.

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