Why TELUS (TSX:T) Stock Rose 1% in August

Description

TELUS Corporation (TSX:T)(NYSE:TU) rose 1% last month, roughly in-line with the **S&P/TSX Composite Index**. Year-to-date, however, TELUS shares have lagged the market by nearly 10%. That underperformance has pushed its dividend yield up to 4.5% and its valuation down to historic lows.

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In August, the company revealed second-quarter earnings, and some of the results paint a credible bull case for shares. This stock has been left behind this year, but it offers the rare combination of growth, stability, and income.

What happened?

On August 2, TELUS held its second-quarter earnings conference call, which revealed a great deal. Over the last eight quarters, TELUS beat EPS and revenue estimates the majority of the time, so expectations were high. Adjusted EPS ended up coming in at $0.69, a slight miss.

Revenues, meanwhile, beat by $30 million, coming in at $3.6 billion, representing 4% growth year-over-year. Overall, the financials presented a mixed bag, but it was management's commentary that held the most intrigue.

"We are continuing to build on our track record of providing investors with the industry's best multi-year dividend growth program, targeting annual dividend growth between 7% and 10% through 2022," said CEO Darren Entwistle.

"There are not very many companies that can make that statement and then deliver upon it. This is underpinned by our expectations of strong cash flow generation and growth from TELUS over this exact same period."

When this company tells you it will return huge sums of money to shareholders, you should believe it. Since 2004, TELUS has returned $17 billion to stockholders, totaling $28 per share, more than half the current stock price.

Over the previous five years, the dividend has grown by 4.2%. But over the previous three years, that growth rate picked up to 7.3%.

Despite the jump, that's still at the low range of management's projected estimates. The market doesn't seem to be pricing in this income upside. By the end of 2022, the yield could easily approach 7% based on today's cost.

What to expect

As a telecom company, TELUS has always been known as a dividend stock. That reputation was hard-earned, but it looks like the company will double-down on its income stock strategy. The current 4.5% yield is attractive, but factoring in 7% to 10% annual payout growth makes this dividend a steal.

You won't be paying an arm and a leg either. TELUS shares trade at just 16.5 times 2019 earnings, a discount to the market. Looking ahead, the stock trades at just 15.5 times 2020 earnings.

This is simply a cheap stock with a sizeable payout that should grow for years to come. Don't expect huge gains, but if you want to own recession-resistant businesses that provide you with regular streams of cash, TELUS is a perfect candidate.

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