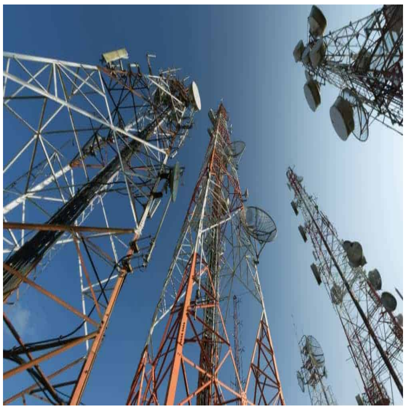

How Much Is the Telus Corporation (TSX:T) Dividend Worth?

Description

Telus (TSX:T)(NYSE:TU) has always been an attractive bet for income investors who still want a bit of growth over the long haul. The 4.7%-yielding telecom titan is fairly sizeable with its $29.2 billion market cap.

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Unlike its big brother **BCE** (TSX:BCE)(NYSE:BCE), however, which has a market cap of almost twice its size, Telus is more agile, with fewer depreciating legacy assets, and far more growth left in the tank.

As the Canadian telecom scene becomes that much more competitive, with new telecom tech being rolled out across select markets, does it still make sense to pay up for Telus' dividend or should one simply opt for a REIT or a utility to get their income fix?

Not only do telecoms need to spend money on 5G and fibre infrastructure hand over fist to keep up with the changing times, but they also need to compete with one another in an arena that became that much more competitive compared to the past decade.

Unfortunately, higher spending and potentially lower margins mean less money that'll be available to go back into the pockets of shareholders in the form of an upper dividend.

Shaw's battle to win the west may hurt dividend growth over the long haul

Shaw Communications (TSX:SJR.B)(NYSE:SJR) is the nemesis of Telus on the west coast, and with Freedom Mobile now looking to disrupt Telus's wireless business, the two telecom giants are going to need to provide Canadians with an offer they can't refuse in order to get the upper hand.

Given that Shaw is the new entrant to the wireless scene, it'll play the role of disruptor. With Telus looking to defend its subscriber base, significant margin compression can be expected once new telecom tech becomes the "norm" with Shaw's reputation as an aggressive price undercutter.

With 5G infrastructure to hit over the next few years, the appetite for data will only rise. As Shaw's Freedom Mobile has upped the ante with unlimited data plans, Telus will need to drop to Shaw's level if it's to maintain its historically low churn rates, as switching costs continue to go on the downtrend.

Telus has been rising to the competition

Despite the competitive pressures brought forth by Shaw thus far, Telus has been continuing to add new subscribers, with 154,000 total adds in the latest quarter, up around 33% year over year.

Network quality and stellar customer service are what keeps Telus a notch above its peers, but only time will tell whether Telus can continue exhibiting impressive momentum in the face of U.S.-style telecom competition.

There are dents in the armour, with ARPU (average revenue per user) falling 1.2% year over year to just over $60. Over time, I do see ARPUs on the downtrend, as Shaw continues its push into Telus' turf.

Yes, Telus may have a first-mover advantage in select markets with 5G, but such benefits will be short lived, as Shaw will be breathing down Telus' neck.

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So, how much is Telus' dividend worth?

Telus' management team is doing an exceptional job, but the competitive environment is changing for the worse. As such, investors shouldn't be paying a hefty premium for Telus and its dividend, as they have in the past.

At the time of writing, Telus trades 16 times forward earnings and 2.1 times sales, which is pretty in line with historical average valuations.

Normally, I'd say Telus would be overvalued given the future of Canada's telecom scene doesn't look as favourable as the past. But given the recent growth-to-value rotation and how dividend stocks are the only game in town for conservative investors, I'd say Telus is looking fairly valued at $48.50.

If you're looking for a big dividend, you can't go wrong with Telus at today's prices. But if you're looking for 10% in annual total returns, you'd be better off looking elsewhere.

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