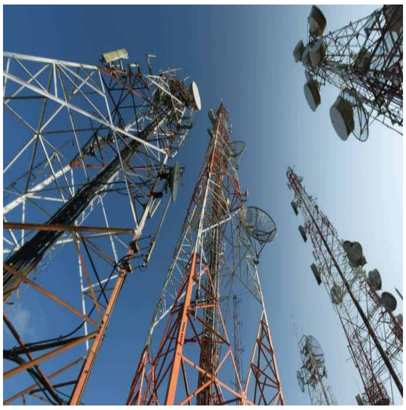

Better Dividend Buy: Telus (TSX:T) vs Roger Communications (TSX:RCI.B)

Description

Dividend stocks continue to be the rage in a bear market. Stocks that provide a steady stream of income are preferred over stocks that might provide multi-bagger returns. Here, we look at two Canadian telecom giants to see which is a better dividend buy at the current price. We compare their dividend yield, revenue growth, earnings growth, valuations, and more.

Telus

Telus (TSX:T)(NYSE:TU) is valued at $28.6 billion and has performed in-line with the broader markets over the last year. Telus stock has gained close to 7.2% since October 2018, compared to the 8% return for the **S&P/TSX Composite Index.**

Telus is expected to grow sales by 2.8% to $14.77 billion in 2019 and by 4.1% to $15.38 billion in 2020. The stock is valued at 1.94 times forward sales. Analysts also expect the company's earnings per share (EPS) to rise 2.1% in 2019, 7.6% in 2020, and by an annual rate of 4.7% in the next five years.

Comparatively, Telus stock is trading at a forward price-to-earnings (P/E) multiple of 15.2 which looks like the stock is overvalued even after accounting for its forward dividend yield of 4.7%.

At the end of the second quarter of 2018, Telus had an operating cash flow balance of $3.96 billion while debt stood at $16.8 billion. The company has a dividend payout ratio of 74.8% which allows enough room for interest payments and increases in capital expenditure. It ended the second quarter with a cash balance of $220 million.

We have seen how Telus has managed to add 154,000 new subscribers in the June quarter, a growth of 45% year over year. The customer satisfaction for Telus customers is also high which is an important metric for telecom operators.

Telus' return on equity (ROE) stands at 17.4% while return on assets (ROA) is 5.5% in the trailing 12-month period. The stock has a beta of 0.41, indicating very low volatility. Analysts have a 12-month average target price of $52.21, which is 9.5% higher than the current target price.

Rogers Communication

Rogers Communication (TSX:RCI.B)(NYSE:RCI) is valued at $32.6 billion, and has lost close to 3% in market value since October 2018.

Analysts expect Rogers to grow sales by 1.5% to $15.3 billion in 2019 and by 2.4% to $15.68 billion in 2020. The stock is valued at 2.1 times forward sales. Analysts also expect the company's EPS to rise 2.3% in 2019, 7.7% in 2020, and by an annual rate of 6.6% in the next five years.

Comparatively, Rogers stock is trading at a forward P/E multiple of 13.3 and it has a forward dividend yield of 3.1%. The forward P/E multiple indicates that the stock is overvalued by at least 20%.

At the end of the second quarter, Rogers had an operating cash flow balance of $4.41 billion while debt stood at $19.76 billion. The company's dividend payout ratio is 48.6%.

Its ROE stands at 25.6% while ROA is 7.1% in the trailing 12-month period. The stock has a beta of 0.07. Analysts have a 12-month average target price of $74.75 for Rogers, which is 17.4% higher than the current target price.

The verdict

We can see that Telus is trading at a higher P/E multiple than Rogers, but has lower ROA and ROE metrics over the last 12 months. Rogers is also set to grow earnings at a faster pace over the next five years.

Though Telus has a higher dividend yield, Rogers' lower dividend payout ratio provides it with more bandwidth to increase the dividend per share going forward.

Rogers stock also has a higher upside potential compared to Telus, as per analyst estimates. Both companies are set to benefit from the shift to 5G over the next few years. Though both these stocks remain solid long-term picks, it seems like Rogers is a better value buy at the current price.

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