Rogers vs. Telus Corp: Which Stock Offers the Best Income Opportunity?

Description

Canada's telecom stocks have entered a little rough patch this year. After playing it safe for many years, the nation's largest telecom companies are changing tactics and entering in a highly competitive landscape.

Rogers Communications Inc. (TSX:RCI.B)(NYSE:RCI), last month posted a disappointing third-quarter earnings report, which was mainly hurt by its shift to unlimited data pricing.

What worried investors after seeing Rogers' earnings is that the financial impact of Rogers' unlimited data wireless plans was much higher than anticipated. More than one million Canadians signed up under the new pricing model – three times what Rogers expected by this point.

After Rogers, Telus Corporation (TSX:T)(NYSE:TU) also disappointed investors when it releases its third-quarter earnings report last week. The company said that its third-quarter profit fell compared with a year ago because of higher technology investment costs, depreciation and amortization.

Net income declined 1.6% to $440 million for the three months to September 30 compared with $447 million over the same period in 2018, while basic earnings per share dropped 2.7% to $0.72 a share.

Telus, while in a direct competition with Rogers, also scrapped data overage fees, thereby depriving itself of one of the major revenue sources. Telus' churn rate – the amount of customer turnover – increased slightly to 1.09% during the quarter and the company recorded 10,000 fewer new wireless customers at 193,000 compared to the year-ago period.

Rogers vs. Telus

The share price chart of these telecom players clearly shows that investors are punishing Rogers more than Telus in an environment that sees escalating competition eating into their margins. Telus stock is up 11% this year, while Rogers stock is down 9%.

Despite this temporary setback, however, I find Rogers stock more attractively priced after this recent pullback and the long-term investors should take advantage of this weakness.

Trading at $63.65 at the time of writing, Rogers is offering a dividend yield of more than 3%, which is close to the highest in the past five years.

Although Rogers isn't among the best dividend payers, the company is more geared towards growth, and has massively outperformed Telus when it comes to growth.

That said, Telus is a great income stock and has many growth drivers that could keep its cash flow strong. In the latest results, Telus hiked its quarterly dividend to $0.5825 per share from $0.5625 a share and said it had returned $1.3 billion in dividends to shareholders so far this year.

"Telus has now returned more than $17 billion to shareholders, including over $12 billion in dividends, representing approximately $29 per share since 2004," Darren Entwistle, President and CEO, said in a statement.

"Future dividend growth and affordability will also be supported by lower expected capital expenditures, in line with the preliminary guidance we are providing today for 2020 and 2021, and the resulting free cash flow expansion."

Bottom line

Both Rogers and Telus stocks are solid income stocks, offering one of the best avenues for dividend investors to earn income. If I have to decide between the two, I would equally distribute my cash to get exposure to both opportunities.

As I emphasized in my earlier articles, these stocks aren't a short-term bet. You should be prepared to hold these stocks for the next five to 10 years in order to make some handsome returns.

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