Income Investors: Should You Buy Telus (TSX:T) or Shaw (TSX:SJR.B) Stock in 2020?

Description

Telus (TSX:T)(NYSE:TU) is arguably the best-equipped Big Three telecom player to offset competitive pressures applied by the disruptive **Shaw Communications** (TSX:SJR.B)(NYSE:SJR).

There's no question that Telus is exposed to potential share-taking at the hands of Shaw (and its mobile business Freedom Mobile), especially on the west coast, where both firms have established their dominance. But Telus's intense devotion to top-notch customer service, I believe, will limit subscriber bleeding compared to the other two players in the Big Three.

Switching costs and margins for telecom services have been down-trending, and they'll continue to over the long term until the Big Three can become the Big Four. With a new slate of telecom tech, including 5G on the horizon, there is a short-term window for some margin expansion before further margin damage can be expected.

Given Telus has been a frontrunner with its infrastructure investments, I see Telus as a significant beneficiary of the new roll-out of fibre and 5G wireless.

As Shaw (and its budget brand Freedom) catches up to Telus on the network quality front, though, Telus is going to need to do more than just throw money at improving network quality further given Canadians do care about striking a balance between service quality and affordability.

Your average Canadian is deep in consumer debt, and many of them are willing to sacrifice a bit of speed (or reliability) to save hundreds of dollars a year.

Telus and the Big Three incumbents will have no option but to lower the bar on their prices and play in Shaw's arena. Still, there is one other area where Telus can gain an edge over Shaw and its Big Three peers, who will also be playing defence when it comes to their subscriber bases.

With CRTC complaints surging to record highs, it's apparent that Canadians are longing for a telecom firm that cares to deliver a high standard of customer service. Fortunately, customer service is Telus's bread and butter, boding well for the firm's reputation, as the telecom landscape becomes that much more competitive in 2020.

So, should you buy the disruptee in Telus or the disruptor in Shaw?

Shaw's Freedom could continue to be a thorn in the side of Telus, but at current valuations, Telus looks like a terrific bet for income investors with its 4.6% dividend yield with shares trading at just 16.2 times next year's expected earnings and 2.1 times sales.

With Telus, you're playing defence. You're getting a cheaper stock with a customer service edge.

As for Shaw, it has a far better growth profile and an equally attractive 4.4% yield. While you can't go wrong with either name at this juncture, I think Shaw will have more significant capital gains in 2020 and beyond, as it takes price undercutting to a new level.

With Shaw, you're going on the offensive. It's a growth play that can meet your income needs.

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