Retirees: Should You Buy Telus (TSX:T) for a Passive Income Edge?

Description

Retirees have the tough task of balancing the goals of upfront income and longer-term growth, all while looking to minimize volatility and perceived market risk where possible. To make things even harder, rock-bottom interest rates have made fixed income securities absurdly unrewarding. Even for those with multi-million-dollar nest eggs, a 1.5% coupon on some bond isn't going to cut it.

While such debt instruments are still technically considered "free of risk," one could argue that given the ridiculously low returns (and sky-high opportunity costs), not only do younger investors stand to lose by investing in low-return bonds, but also retirees who are supposed to adopt a more conservative approach with the incorporation of uncorrelated investments like bonds.

Gone are the days when bonds could finance a comfortable retirement. Today's retirees need to look to new asset classes to construct their passive income streams. Fortunately, we can avoid risking our shirts, by looking at some of the defensive dividend stocks or bond proxies within the equity markets.

Telus

Consider **Telus** (TSX:T)(NYSE:TU), the ultimate bond proxy for those retirees who seek a passive income edge. While there's no question that the Canadian telecom scene is on the cusp of a race to the bottom in terms of wireless and internet rates, Telus appears to have the edge over its two brothers in the Big Three oligopoly as the disruption commences.

Thanks to a lack of meaningful competition, Telus has enjoyed the fruit of some of the highest telecom rates in the developed world. But now that number-four player **Shaw Communications** has jumped into the mix with a price-undercutting strategy, the Big Three dividend heavyweights may be in for lower capital gains through the 2020s.

While longer-term margins may be downtrending, I do see Telus's margins moving higher over the intermediate-term as it'll be one of the first to roll out new tech (like 5G wireless) in select markets. This will effectively make Telus one of the only games in town for a year or so as 5G becomes the norm, at least until the competition has an opportunity to catch up.

It's not just Telus's quickness to markets with new infrastructure that has me bullish on the name, though. It's the company's reputation for delivering high-quality customer service (in an industry that's experienced a tonne of complaints), its lack of a traditional media business, as well as Telus International (focused on IT services) and Telus Health (focused on digital health solutions), perhaps two of the most underrated (and undervalued) pieces of the Telus puzzle.

Branching out

Telus isn't just a telecom anymore. Both subsidiaries (health and international) may be small in comparison to telecom services, but they're capable of considerable long-term growth that could eventually serve to offset mounting pressures facing Telus's bread-and-butter telecom business.

At the time of writing, Telus stocks trade at 8.8 times EV/EBITDA and just 16 times next year's expected earnings, a low price to pay for a robust telecom that not only has what it takes to compete in a more competitive telecom scene but also has underrated subsidiaries that could drive growth moving forward.

In any case, I see Telus as my second favourite telecom play (my favourite is Shaw) for those who want growing passive income with minimal downside risk. The stock yields 4.6% and is a compelling buy now at all-time highs.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:TU (TELUS)
2. TSX:T (TELUS)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Tech Stocks

Date
2025/08/24
Date Created
2020/01/12
Author
joefrenette