Telus (TSX:T), the Quintessential Dividend Stock, Just Went on Sale!

Description

Telus (TSX:T)(NYSE:TU) stock pulled back 3.2% on Thursday following news of the company's intention to sell $1.5 billion worth of shares to fund growth opportunities, capital expenditures, and debt repayment, among other things.

Given the shares have spiked vertically in 2020, it was only prudent for investors (and the firm) to think about taking a bit of profit off the table, something I suggested in a prior piece urging dividend seekers to "forget Telus" and consider one of its more attractively-valued peers in the Canadian telecom space.

Whenever you have a blue-chip defensive stalwart like Telus surging over 10% in just a month, it's only prudent to do some trimming. Such dividend behemoths aren't necessarily known for rapid growth, paradigm shifts, or corrections to the upside. These were significant reasons why I wanted investors to take a rain check on the name at a time of its temporary overvaluation.

"While there's no question that Telus has been a stellar performer, its multiple is quite frothy as a result, leaving less value to investors looking to jump in after the recent upward spike past $55," I warned.

"Shares are by no means expensive; they are a tad rich relative to historical averages at 19.2 times trailing earnings and 8.2 times cash flow."

The day I wrote the piece was the same day that Telus stock peaked. With shares down over 6% in just five trading sessions, investors who bought the upward spike are now licking wounds that won't be so quick to heal. Indeed, stocks tend to take the stairs on up and the elevator on down.

After such a sharp correction, though, should income investors look to initiate a position in one of the most robust telecoms of the past year? Or is the elevator ride headed to the basement?

Telus has shown that it's one of the best Canadian telecoms, not only in terms of network quality, but also in terms of customer service — something that's been neglected by many of its peers as demonstrated by the growing number of national telecom complaints.

Superior customer service can make all the difference when the floodgates open and disruptive competitors look to poach subscribers away from the incumbents.

Switching costs have been lowered, and the federal government is actively pushing to lower telecom bills by fostering competition in the telecom scene.

Canadian Prime Minister Justin Trudeau promised lower telecom bills by approximately 25% in four years. If he keeps his promise, investors should expect regulators to put hurdles in front of the Big Three and grant competitive advantages to up-and-comers in the wireless scene.

Telus CEO Darren Entwistle stated that Telus could cut approximately $1 billion in spending and slash a whopping 5,000 jobs over the next five years should the CRTC require wireless carriers like Telus to open its wireless network to resellers. That's a major risk that's been discounted by the markets. Like it or not, the CRTC will take it a lot further to slash the average telecom bill by a quarter.

Add the widely-debated inclusion of Huawei gear into Telus's infrastructure build-out and I think Telus is a stock that could take a one-two punch to the gut from the government as soon as this year.

Telus is one of the bluest blue-chip stocks out there, but I think investors should avoid the recent "sale" on shares. They're cheaper for a very good reason, and they could become a lot cheaper over the coming months as competitive pressures rise in conjunction with potential pressures put forth by regulators.

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